

Olga Morozova

**INTERGATION OF ORGANIZATIONAL STRUCTURE AND LEADERSHIP  
PRINCIPLES OF MULTINATIONALS IN THE EMERGING MARKET – THE  
RUSSIAN FEDERATION. CASE COMPANY: HEMPEL A/S.**

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<p>A world-leading supplier of protective coatings, Hempel A/S commissions this thesis; it is going to launch its first production facility in Ulyanovsk, Russia. The aim of the thesis is to find out the possible integration process of the company's organizational structure and leadership policies in its new subsidiary.</p> <p>In the first part, the brief information on the client enterprise is presented. The theoretical background is based on internalization theory, FDI risks theory, Hofstede's cultural dimension theory and the GLOBE research. The research is based on the secondary data collected from reliable both printable and online sources. The next chapters are mostly focused on the Russian paints-and-varnishes market and FDI inflows into the country. The fourth part concentrates on the specific features of the Russian business life and its habits in terms of industrial relations, internal management and communication, traditional power structures and leadership principles in Russian companies.</p> <p>Lastly, the research reveals that balanced hybrid organizational structure is to be established in the new subsidiary and provides a detailed plan of transformation from linear-functional organization to matrix one. Moreover, the study recommends being consistent to favored Russian leadership.</p>	
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## PREFACE

This thesis is accomplished in spring 2015 and is fulfilling the requirements for the Bachelor's Degree in International Business at the Kajaani University of Applied Sciences. I would like to thank some people for support. Firstly, I would like to thank my parents for all the trust in my abilities and strong support in all my beginnings.

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This research provided me with the great opportunity to control my personal achievements of the studies. The thesis enabled me to apply many previous studies, skills, knowledge and models in the real case situation.

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## 1 INTRODUCTION

In 2010-2015, the Russian Federation has been a very attractive and profitable market to do business in due to its promptly growing economy, vast natural resources, a great number of potential customers and considerably low production and labour costs. In spite of the current unfavourable political situation and estrangement in relations with the Western countries, international companies are nevertheless engaged to invest and to expand their activities in its market.

Besides being the biggest European Union's neighbour, Russia is also a strategic and significant business partner with a great variety of opportunities considering its major territories, population and non-renewable resources. According to European Commission, Russia is the third trading partner and the EU is the first trading partner of the Russian Federation. The strategic partnership is mainly laid on investments, export and import opportunities. For instance, machinery and transport equipment, chemicals, medicines and agricultural products dominate EU exports to Russia; in return, Russian raw materials, in particular, oil (crude and refined) and gas prevail exports to the strategic partner. (European Commission 2014) Moreover, the European Union is the most important Russian investor with the estimated Foreign Direct Investment up to 75 per cent of the overall direct investments to the country. (ibid.)

The research was conducted for the case company Hempel A/S that was presented in the Russian market for almost two decades, starting from 1996 as a representative office located in Moscow. In 2011, Hempel concluded to deepen its activities and to establish a wholly owned subsidiary – its first paint and coating production plant in Ulyanovsk, 893 kilometers east of Moscow. (European Coatings 2011) The objective of the research was to find out how to maintain the management style and organizational structures in Russia, an economy in transition. The purposes of the research embrace the collection of authentic information that can be used for:

- 1) Evaluation of the paints-and-varnishes market in Russia;
- 2) Hempel's performance in the past years;
- 3) FDI inflows into Russia;
- 4) Leadership practices and cultural dimensions of Russia;



## 5) Adaptation of Western company's internal structure and leadership style.

The data of the research is based on secondary data collected, such as articles, publications, journals, previous researches, Hempel's A/S intranet and website. However, the research also contains graphs and numbers from the online and printable sources that are significant for making numerical analyses and appear to be necessary to answer the research questions.

### 1.1 Research Problem

Usually considered as a resource-reliant economy, notable growth in retail, telecommunications and real estate development in recent years has driven an expansion in the Russian consumer base. Incomes are increasing significantly and consumer loans are becoming more affordable and common, that has given a possibility to the country to weather the economic storm much better than other export-reliant nations.

Being a part of BRIC (Brazil, Russia, India, China), Russia is one of the largest emerging markets in the world. The Russian Federation is a huge consumer market that offers almost 142.5 million of potential customers and consumers, a wide range of non-renewable resources, and considerably low operating costs. As the market matures and open market policies are favoured over a protectionist stance, the international business community is starting to warm Russia as an investment destination. However, many challenges of doing business in this diverse and notoriously tricky economy remain. Some of the most common business problems are referred to the implementation and maintenance of organizational structure and management style of advanced countries where Foreign Direct Investments come from.

### 1.2 Research Questions

As it is defined in the previous chapter, the research topic is the transformation of the globalized countries' organizational design and leadership practices to the Russia-based facilities in order to smooth the operations. In order to keep to the main research problem and not lose the track, one needs to define the research problems to monitor a development of the topic and to indicate the right workflow and results.

As the research problem is closely connected to the coating and paint Russian market and its customers, it is highly appreciated to ask:

1. What is the overall picture of the coatings and paints market of Russia?

This question is examined in Chapter 4.1 'Paints' and Coatings' Market in Russia'.

Proceeding with the first question, it is necessary to make a research on understanding and assessment of two main Russian operating segments: affluent cities, i.e. Saint Petersburg and Moscow, and province regions. At this step of research, the statistical data is needed to illustrate the differences of FDI inflows and interests of foreign investors. This statistical data is taken from open sources – ROSSTAT, a state agency of statistics in Russia, and an open research study of Deutsche Bank.

In Chapter 4.2.1 and 4.2.1 the following questions are answered.

2. What are the biggest FDI destinations in Russia?
3. Is there any difference in FDI inflows in affluent cities and regions?
4. Why do investors go into regions?
5. Why did Hempel A/S choose the Ulyanovsk Region as a place for constructing its first manufacturing plant in Russia?

As soon as the given above questions are replied, the most crucial research issues could be addressed. In order to understand better the business life and labour relations in Russia, these issues are described in Chapter 5.

To come closer to the main research topic, the following questions are also asked and answered in Chapter 5.

6. What organizational structure is the most common in Russian companies? (Chapter 5.2)
7. What management style/leadership is widespread in Russian enterprises? (Chapter 5.3 and 5.3)

Answering the seventh research question, the specific studies, models and previous researches are needed: Hofstede Six Dimension and the GLOBE research. In order to answer this research question, it is necessary to define management and leadership.

In addition, while analyzing the Russian culture and its management system, the major issues of socio-labour relations should be taken into account.

8. What is socio-labour relations management in Russia? What are its specific features?

Giving the accurate answers will lead to an issue of integration Russia's and the country of origin management policies.

9. How to integrate the organization structure of Hempel A/S on its production plant in Russia?

Regarding to management style, this kind of question should be asked:

10. Is it possible to integrate Hempel's A/S leadership principles in Russian people's mindset?

If no, then:

11. How to balance leadership types of Hempel A/s and Russian traditional companies?

When the research questions are addressed properly, then the whole research paper is aimed for success. Those identified research issues will be asked and fully answered throughout the thesis.

### 1.3 Data Collection Methods

Since the topic is connected with Russia, numerous significant materials were presented only in the Russian language, so the author has translated the needed information. Taking into consideration the fact, Hempel A/S does not present its entire database for ordinary Internet users, it was crucial to use the company's intranet as one of the major references on Hempel's activities and its internal organization.

In order to conduct a deep, reliable and constructive research, the reliability of sources is highly important. The research conducted is based on secondary data, which essentially means reviewing literature and data sources, collected for any other purpose than the study at hand.

To help the reader to understand the research topic better, visual materials were also used in order to present numbers and statistical data.

In addition, some of the information used in this paper was taken from previously done researches that used qualitative research methods.

## 2 CLIENT ORGANIZATION – HEMPEL A/S

Hempel A/S is a world-leading supplier of protective coatings to the decorative, protective, marine, container and yacht markets, founded by J.C. Hempel in 1915, headquartered in Copenhagen, Denmark, since 2005 governed by current Group President and Chief Executive Officer - Pierre-Yves Jullien (retirement will take place by the end of March 2016), and owned by the Hempel Foundation. (Hempel 2015) The enterprise operates in 80 countries around the globe, employs over 5 000 people, and owns 27 factories and more than 150 stock points with the worldwide location. (Hempel Group 2015, 5)

### 2.1 Segments and Markets

Hempel Group is strongly focused on high-quality products, excellent customer service and R&D, uses advanced production techniques and delivers professional coating advice to customers and all stakeholders. (Ibid.) Hempel's strategy is aimed at growth on corporate level and at differentiation at business unit level. The enterprise maintains customer-driven leadership throughout all regions it operates in. Hempel owns 10 R&D offices and 48 sales offices around the globe. The main regions, which the company has operations in, are Europe (including Russia), Middle East, Africa (EMEA), Asia-Pacific and Americas.

There are five segments produced by Hempel A/S: Decorative, Protective, Marine, Container, and Yacht. The strategic focus is laid on three main coating segments: Decorative, Protective and Marine, while protective coating is the fastest growing and a very promising segment of the company. Meanwhile, Marine has been the strongest segment, but in the last few years, the turnover from it declined mainly due to a reduction in the number of new ships being built globally and the decision of the Board of Directors to temporarily reduce business risk thanks to financial instability and uncertainties connected with shipowners and shipyards. The strategies regarding each operating segment are presented in the graphic in the appendices' list (Appendix 1/1).

Business-to-customer (B2C) market is very fragile and depends on pure power parity, thus, business-to-business (B2B) segment of the company comprises roughly 3 per cent of its revenue. Hempel aims mostly on B2B cooperation and serves customers in the following business segments:

- Oil and gas (on and offshore);
- Petrochemical plants;
- Port machinery (e.g. cranes);
- Power Generation including conventional and nuclear;
- Mining & metal processing;
- Wind turbines (on & offshore);
- Bridges, airports, stadiums;
- Railway carriages and wagons;
- Chemical plants;
- Water and wastewater facilities.

## 2.2 Market Volume and Turnover

The turnover reached a mark of €1 298 million with the coatings volume of approximately 500 million liters per annum. However, the regions of Europe (including all of Russia), Middle East and Africa (EMEA) are the biggest consumer markets with the revenue of €788 million in 2014 and regional sales in this segment stood at 61 per cent of overall worldwide sales as the pie chart shows below. (Hempel Group 2014, 13 and 30)

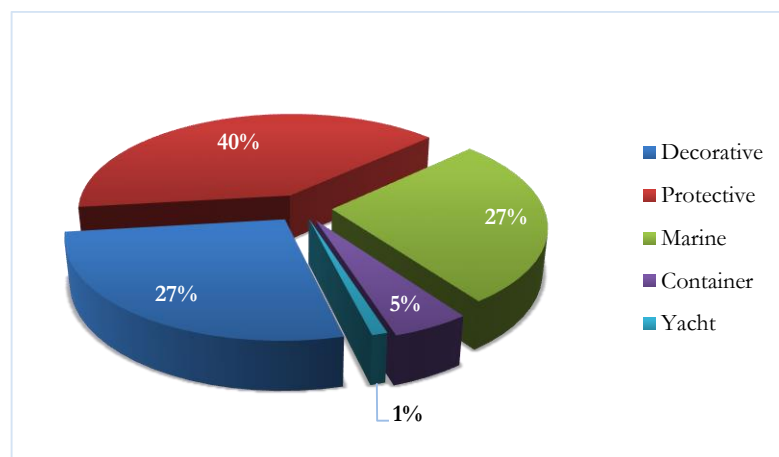


Figure 1. Segments' Turnover in 2014 (Hempel Group 2015, 34)

There are 3 244 employees in EMEA, which comprises almost three-fourth of all staff recruited. (ibid. 13) The increase in revenue throughout the last five years was significant and made up 41 per cent, mainly due to expansion of operations and successful acquisition of Grown Paints, a British paint manufacturer, in 2010. (Hempel Group 2015, 35); (Polymers Paint Colour Journal n.d.)

Moreover, the growth strategy, worked forward from 2010, requires investment in the support functions, from production to sales and training. Hempel is increasing production capacity in a number of countries, including new factory projects in Russia, Kuwait, Vietnam and South Africa. (Hempel Group 2014, 34)

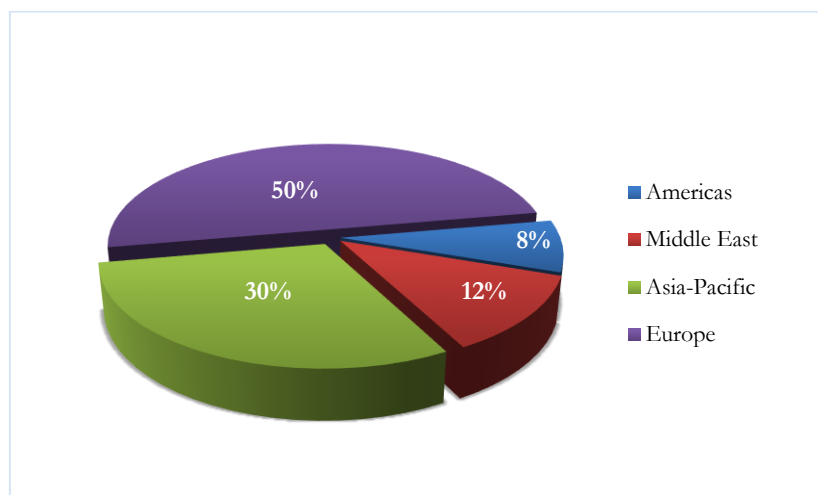


Figure 2. Regional Sales in 2014 (Hempel Group 2015, 34)

The planned expansion of production capacity was realized in 2014 and new factories were inaugurated and began production in Jeddah, Saudi Arabia, and Mumbai, India. In addition, a new factory in Russia is scheduled to open in 2015. The Hempel Group's premises in Denmark, including the new head office, were sold to Hempel's A/S owner and leased back. The sale resulted in a profit of €5 million, which is regarded as other operating income in 2014.

The Russian market is a huge platform for realizing paints and varnishes, as vast availability of resources dictates a strategic expansion into the market and long-term investments. For Hempel A/S, the Russian paints and coating market is very promising as even during the World Financial Crisis in 2009 the market share comprised 3.3 million liters that contributed to 5 per cent of the Russian market. Throughout the past five years, Hempel's sales almost doubled and the products gained a considerable market share. However, it is very complicated to determine one's market share in the paint and coating manufacturing as the industry is heterogeneous. Consequently, Hempel's market fraction is 9 per cent taking into consideration the usual suggestion to the quality coatings (55 400 liters) particularly in protective segment. In 2014, sales in Russia reached \$5.67 million – 4.76 million of them refer to protective coatings.



### 2.3 Organizational Structure and Leadership

Hempel A/S preferred to operate as a Group some years ago as it became more and more obvious that owners, engineering companies and contractors were pursuing a multinational organizational approach, the enterprise decided to adapt their structure accordingly.

Hempel A/S supports the regiocentric management concept of Perlmutter's Model of Management Philosophy that is comprehended as recruitment of management out of the same region, for instance, Europe; accepting a position in their homeland managers have to gather experiences to think European in a general office in Europe. There is a high interdependence on a regional level.

Regiocentric approach enhances the increasing complexity and high worldwide dependence, large headquarters and strong cooperation between subsidiaries out of one region have decision-making rights. Reporting and controlling are the means of worldwide cooperation between parent company in Denmark and all subsidiaries around the globe or at least in the region. Regarding regulations, usually universal and local standards are followed and the rules are adapted to them as well. Incentive system and sanctions are presented in a way of motivation for obtaining regional objectives, nevertheless, there are also incentives provided for international and local managers, expatriates for obtaining international and local objectives. Communication and information flow is considered to be relatively close to Hempel's office in Denmark, very high with regional headquarter and high between different countries and subsidiaries. Russia is a part of Europe Region. Hempel applies the same standards and objectives in the Russian segment as in other European countries. Hempel A/S has an expatriate program for key positions; however, they tend to employ Russians with work experience in a segment and international (cultural) experience in Russia-based headquarters and production facilities. For example, from 2014, the CEO of Hempel CIS A/S is Peter de Groot, who has lived for a couple years in Moscow, Russia.

The multinational strategy and regiocentric approach of the management of Hempel A/S also transformed an organizational structure. The company applies a matrix organizational structure:

1. **Projects** - The primary task remains with the actual coordination of large multinational projects within the protective segment. Thus, the progress of all major projects needs to be tracked and the required actions to obtain they have to be taken.
2. **People** - The success rate to win projects depends highly on the large network of colleagues within Hempel that are able to support each other with their respective expertise. The key task here is to create and maintain a global protective network in areas like sales, technical service, supply chain, R&D/PSP.
3. **Procedures** - Given the number of people involved, departments and regions, another challenge is to align commitment for projects. The duration and required involvement can differ and therefore a certain level of coordination is required to keep the project team committed all the way to the end.
4. **Information** - The complexity of global protective projects and the numerous stakeholders involved requires dissemination of relevant information as soon as possible. Some of this information is gathered locally and are difficult to share automatically. Hence, another coordination task addresses the central accumulation of project relevant information together with its distribution.
5. **Customers** - As mentioned above, the primary customer contact remains with the key account management in the regions. It is Multinational Coordination's ambition to solely facilitate the local contact to customers by providing support and expertise from Group level. Nevertheless, Multinational Coordination represents the corporate contact with these global customers and special events, like the annual Protective Coating Fora, which helps to strengthen the relationship with them.

As a professional service provider, Hempel A/S aims at developing its innovative environment and the competencies and commitment among Hempel employees, enabling the Hempel vision of growth and unity.

### 3 INTERNALIZATION PROCESS

In the process of conducting the current research, different theories and concepts were applied and analyzed. Owing to the topic concerning international management, internalization, intercultural leadership, intercultural communication, these ideas have become the key concepts used for the paper.

#### 3.1 Progressive Internationalization Models

The internationalization of a firm has been one of the most researched topics of international marketing and international management for the past decades. The internationalization of the company is a reflection of this extraordinary diversity that could be revealed and systematized with the help of models. They are dealing with both the main components and particular mechanisms of the international activities the companies should take at one moment. The factors that affect internationalization and the internationalization process of a firm are divided into two main streams in the literature. The Innovation-Model (I-Model) and the Uppsala Internationalization Model (U-Model), both introduced in the 1970s, are the first models that conceptualized the internationalization process.

The following sub-chapter will focus its attention on U-Model as it is considered a progressive internalization model that the research suggests to follow taking into consideration Hempel's A/S profile and its strategic policies in relation to internalization. Moreover, progressive models of internalization are referred to the type that assumes internationalization to be a progressive process having several successive stages. However, the progressive internationalization models are highly appreciated but they are subjected to criticism. Many enterprises do not always go through a consolidation stage in the domestic market before they go international and this could affect their initiatives. Sometimes, a firm surpasses some stages of the process or decides to reverse the tendency by passing from the high commitment to low commitment. Some enterprises are frequently not able to overpass the certain stage of the internalization process.

### 3.1.1 The Uppsala Internationalization Model (U-Model)

The Uppsala model, named after the business school of the Swedish city, is the internationalization model relying on learning and knowledge. It assumes that the lack of knowledge of the company is an important obstacle for the development of Models for the internationalization of the business: a diversity - based approach the international operations. As the company is receiving more knowledge and is learning more from the international activities, these obstacles could be gradually overtaken (Forsgren, Hogstrom 2004; Lakomaa 2009). This hypothesis suggests that big companies having considerable resources could overlap some stages and internationalize in one single step. This statement paves the way for globalization when the “born global” company targets the global market in spite of the fact that it has not yet the necessary knowledge and learning. In addition, the utilization of the stored knowledge about significant markets could be not critical for the success of the internationalization if the foreign market conditions are stable and homogenous.

The progressive model is also known as the Uppsala model and has as a first scope to explain how companies succeed in learning and receiving knowledge during their internationalization operations. The international activities request and allow at the same time gaining two categories of knowledge, objective or general knowledge and market - specific knowledge (Hollensen 2008). Market-specific knowledge is assumed to be gained mainly through experience in the market, whereas knowledge of operations can be transferred from one country to another. The general knowledge can be easily obtained and facilitates geographic diversification. The knowledge generates business opportunities and is an impulse for the internationalization, this being a slow process.

Another scope of the Uppsala model is aiming to show how the knowledge of the company exercises an influence over its investing behavior. The company's lack of knowledge on new market constraints the company to follow a gradual process of international commitment. The more knowledge the company has about market lower the risk and stronger its commitment in foreign markets.

The third scope of the Uppsala model is trying to explain the significant factors for the selection of the target-market. Since the companies are aiming to reduce the incertitude and risk, they start the internationalization process in the nearest countries, both psychological and geographical, before they venture into far markets. The experience has shown that the

psychic distance is sometimes larger than it really is and it is not a constant one and can change, because of the development of the international trade, communications and other factors (Sorensen 1997). The increasing new market's commitment is a progressive one both as commitment degree and as geographic dimension as Figure 1 is showing.

The combination among commitment of the company, geographic diversification and time allows a reorganization of the internationalization process as follows (Popa 2001):

1. First landing, when the company capitalizes its specific advantages using those capabilities and competences, which allow its success in the domestic market: such advantages could be technological, marketing or financial strength.
2. Go native, if the company capitalizes the relocation advantages following the shift of the production and sales capacities into various markets. The company is adapting the strategy and operating modes according to the characteristics of each market, thus becoming a multinational.
3. Globalization. As the company has and capitalizes global advantages using a global strategy.

### 3.1.2 The Model of the Product Life Cycle

Vernon (1966) introduced the hypothesis of the model that the successive modes of internationalization are closely related with the product life cycle. It assumes producers in advanced countries to be sort of “closer” to markets than producers from other countries. As a result, first production facilities appear in advanced countries. As the demand expands, an increasing degree of standardization occurs, allowing economies of scale through mass production.

Furthermore, product adaptation becomes more crucial than actual cost adaptation. In its turn, product standardization allows less developed countries offer competitive advantages as a production location.

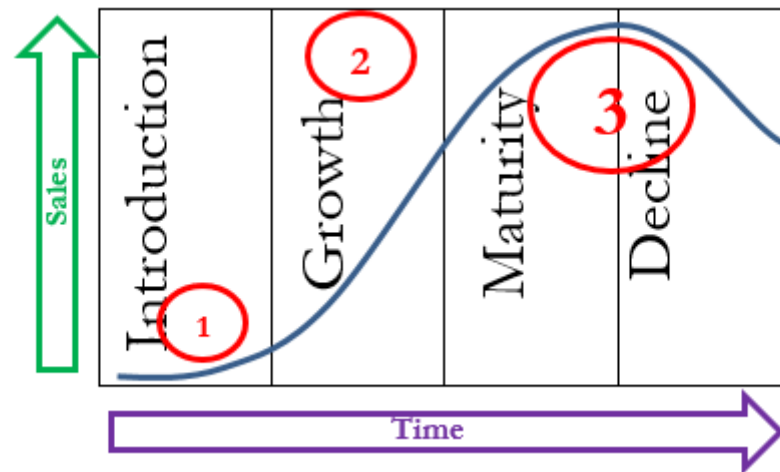


Figure 3. The Product Life Cycle

The life cycle model suggests the internationalization of a company to be divided into three main stages (Sorensen 1997):

- **The stage of the new product** – Development of new products, their marketing campaign in the domestic market first, but soon they start to be exported to other advanced countries.
- **The stage of the mature product** - Growing markets, intensive competition and product standardization encourage product relocation to the largest foreign markets and better competitive advantages. Other countries might be not served from foreign and domestic production bases depending on production and market costs.
- **The stage of the standardized product** - Maturity and decline stage of a product. Location of production can move to the developing countries, and then be transported back to the advanced countries, after two other countries.

The move from one stage to another stage of the product life cycle gives two major benefits: knowledge and cost reduction. These two advantages explain the differences between the developed and developing countries. The knowledge gap between developed countries and other countries is significantly belittled. The concept of cost gap is to remain as the real cases show the cost differences existence in many situations. Thus, many companies, particularly emerging, tend to use subcontracting, licensing, franchising, acquisitions, no matter if there are cost differentials that allow cost benefits not paying attention to their development level.

### 3.2 Business risks of FDI

**Foreign Direct Investment (FDI)** is an investment made by one country into another one - usually by companies rather than states - that involves establishing operations or acquiring tangible assets. (Financial Times n.d.)

In recent years, foreign companies operating in Russia have faced with various risks and a number of them have fallen into difficult situations, some of them faced bankruptcy or insolvency. There are different types of risks associated with operating in Russia: depending on a nature of a company.

Traditionally analyzing the Russian market as an investment area, business risks faced by foreign investors in Russia can be divided by the level of occurrence on:

- Global - emerging in the world economy as a whole;
- Regional - arising at the level of individual regions of the world;
- Macroeconomic - arising at the level of individual countries;
- Meso-economic - arising at the level of individual sectors of the economy;
- Microeconomic - arising at the company level;
- Projects' - occurring at the level of individual investment projects.

Despite the fact that the investment climate in Russia is significantly improving, overseas enterprises are still meeting the problems that are common for operations in emerging markets. (The Wall Street Journal 2012)



Figure 4. Business Risks

Nevertheless, the research is more concerned with business risk in the operational level: particularly in management style and organizational processes. According to Investopedia (n.d.), operational level business risk is a type of risk that combines the risks an enterprise, which occur when it tries to operate within a specific industry; it is a risk that is ‘not inherent in financial, systematic or market-wide risk’. In addition, operational risk remains after determining financing and systematic risk, and includes problems resulting from breakdowns in internal procedures, people, processes and systems. (Investopedia n.d.)

In order to make the Russian market more attractive for direct investments and transparent for investors, the operational risks must be eliminated or, at least, minimized. Especially to ease the process of setting up a production plan or factory with the same rate of productivity and products’ quality applying proven to work management style from home to the Russian very different and distinctive organizational culture.

### 3.3 Competitive Advantage of Nations theory

The nature of national competitive advantage is still being argued. On the one hand, some scientists see national competitiveness as a macroeconomic phenomenon, driven by arguments such as exchange rates, interest rates, and government deficiency. (Porter 1990) However, there are numerous examples of faster rise of living standards despite budget deficits (Korea, Japan); despite appreciating currencies (Germany and Switzerland); and despite high interest rates (Italy and Korea). (ibid.)

Others insist that competitiveness is a function of cheap and abundant labor. (Porter 1990) Nevertheless, some developed countries have high wages and labor shortages (Germany, Switzerland, and Sweden).

Another opinion connects competitiveness with the availability of natural resources. Nevertheless, Germany, Japan, Switzerland, Italy, and South Korea are countries with limited natural resources. Others explain national competitiveness by simple government regulations and policies or see the explanation in differences in management practices, including management-labor relations. However, there is no one true definition of national competitiveness.

In this ‘The Competitive Advantage of Nations’ (1990) book, Michael Porter claims **productivity** to be the most meaningful concept of competition within the nations. Based



on his conclusion concerning the national ability to compete, Porter (1990) describes four keys, often referred to as ‘Porter’s Diamond’ or ‘Diamond Model’, to a nation’s competitive advantage relative to other countries.

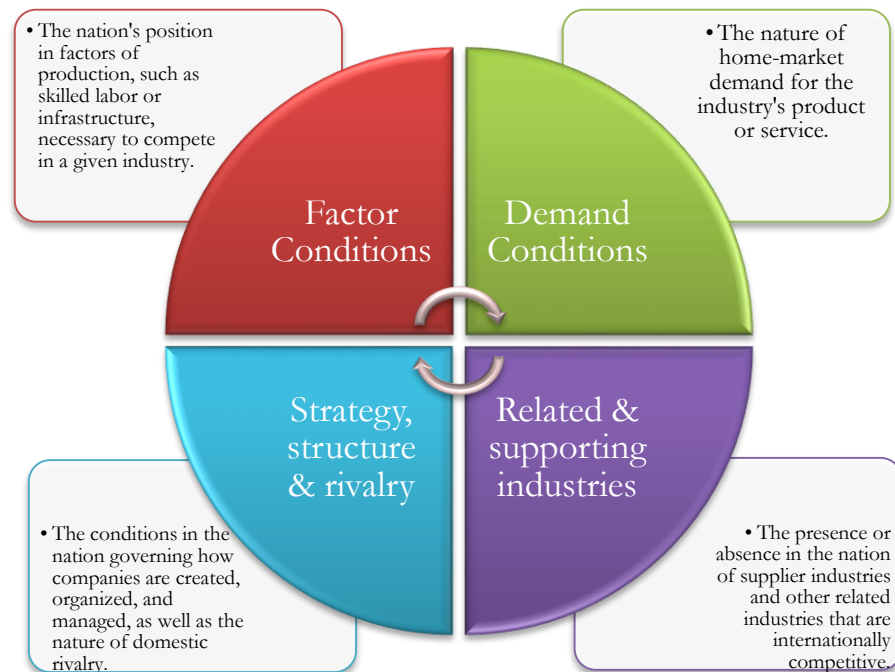


Figure 5. Porter’s Diamond

The given qualifiers create the national environment where enterprises learn how to compete. Each element on the Porter’s Diamond is an essential point for achieving international competitive success: the availability of resources and skills necessary for competitive advantage in an industry; the information that shows opportunities that enterprises perceive and the ways they deploy resources and skills; the goals of stakeholders in companies; and pressures on companies to invest and innovate.

Enterprises are able to acquire a competitive advantage only when a national environment 1) permits and supports the most possible rapid accumulating of assets and skills; 2) affords better information inflows and insight into product and process needs; 3) pressures companies to innovate and invest. The third condition gives a possibility to upgrade special competitive advantages with the passage of time. (Porter 1990)

### 3.4 Four Stages of National Competitive Development

In support of 'National Competitiveness Model', Porter delineates four distinct stages of national competitive development: factor-driven, investment-driven, innovation-driven, and wealth-driven. (Rugman, Collinson & Hodgetts 2006, 445) In the factor-driven stage, successful industries draw their advantage almost solely from the basic factors of production such as natural resources and the nation's large, inexpensive labor pool. (ibid.) Although successful internationally, the industries compete primarily on price. In the investment-driven stage, companies invest in modern, efficient facilities, technology, and work to improve these investments through modification and alteration. In the innovation-driven stage, firms work to create new technology and methods through internal innovation and with assistance from suppliers and firms in related industries. (Rugman, Collinson & Hodgetts 2006, 446) In the wealth-driven stage, firms begin to lose their competitive advantage, rivalry ebbs, and the motivation to invest declines. (ibid.)

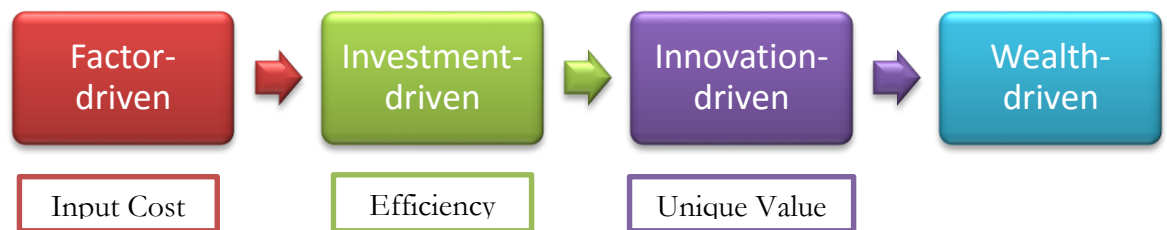


Figure 6. Porter's Four Stages of National Competitive Development

### 3.5 Organizational Structures

The **linear-functional organizational structure (FOS)** is a structure with power emanating from the top down. (Management Mania 2015 a) There is a well-defined chain of command with a vertical organization, and the person at the top of the organizational chart has the most power. Employees report to the person directly above them in the organizational structure. Each person is responsible for a specific area or set of duties. (ibid.) The figure below describes the major pros and cons of linear structure:

Benefits	Drawbacks

1) Better at designating tasks to employees or departments within the company  2) Well-defined responsibilities for employees  3) Generally easier to manage	1) Dependent on a strong leader at the top  2) Poor decision making by the superior  3) Lack the transparency
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Table 1. Benefits and Drawbacks of FOS

In practice, the FOS looks as follows:

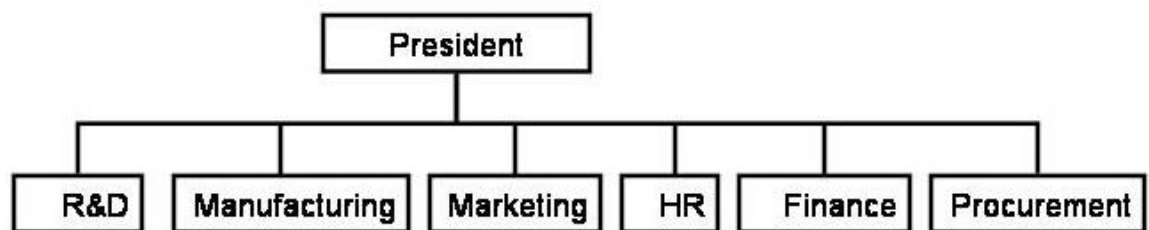


Figure 7. Organigram of Functional Organizational Structure (Management Blog 2006)

A **divisional organizational structure (DOS)** has a less-defined chain of command; a structure, in which a firm is divided into different divisions, each of which is responsible for a distinct business area. (Management Mania 2015 b) Employees across lines have similar input into how the organization is run. Instead of each person having clearly defined duties, employees may work in teams, with everyone on the team having input. Employees may perform many different functions and may report to several supervisors, rather than a single boss. Project managers or team leaders report to a team of supervisors, with members of each team being essentially equal in terms of power. The main advantages and disadvantages of DOS are presented as a table below:

Benefits	Drawbacks
1) Fewer rules and more power in the hands of employees give higher employee satisfaction  2) A stronger sense of identification	1) More skills required, which reflects in either increasing job stress or making the job more interesting  2) Takes more time and resources to

with the company (a team player)	make decisions, as a result, less efficient
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Table 2. Benefits and Drawbacks of DOS (Management Mania 2015 b)

In practice, a worker has various managers in different areas of the enterprise's activities as shown below:

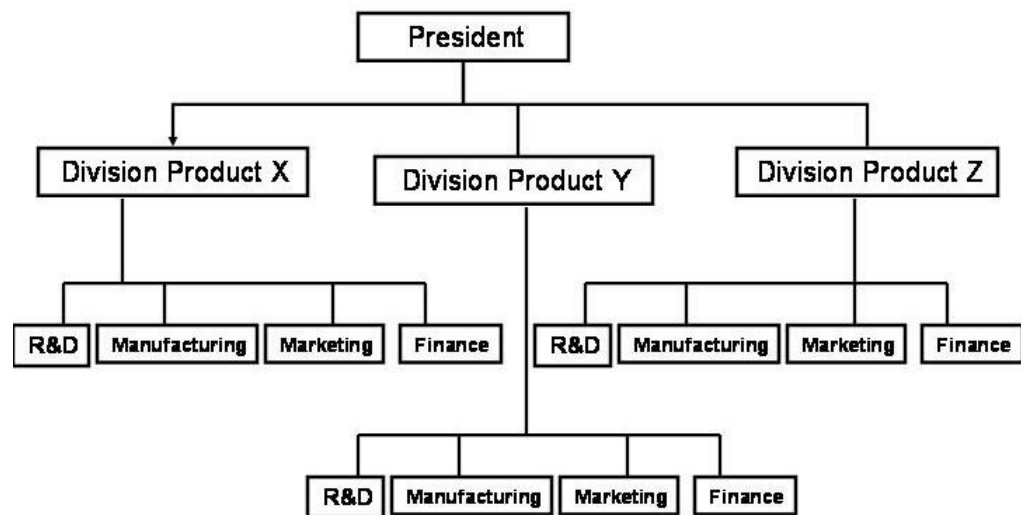


Figure 9. Organigram of Multidivisional Organizational Structure (Management Blog 2006)

**Multi-dimensional organizational design (Matrix)** is an organization combining both structures explained above – functional and divisional organizational structures. It is the most complicated and hard to maintain organizational structure. This type of organizational structure comprises the advantages of both divisional and functional structures and has unique disadvantages that the table below shows:

Benefits	Drawbacks
1) Benefits of functional structure and also of divisional structure;  2) Suits multinational companies.	1) Hard to implement due to dual authorities;  2) Complicated system of communication.

Table 3. Benefits and Drawbacks of MOS (Management Mania 2015 c)

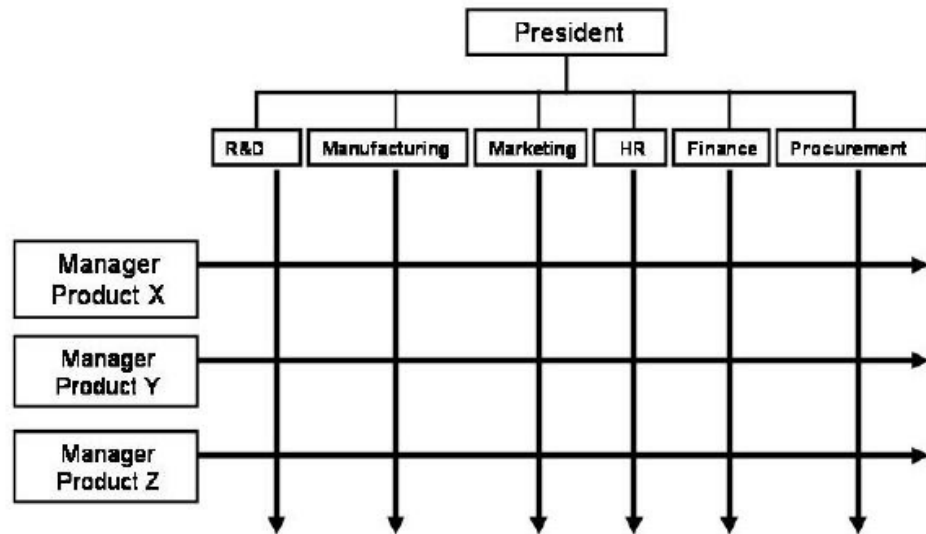


Figure 7. Organigram of Multi-dimensional Organizational Design (Management Blog 2006)

### 3.6 Hofstede's Cultural Dimensions Theory

Hofstede's cultural dimensions theory is a framework for cross-cultural communication, developed by Geert Hofstede. Hofstede was one of the first researchers who analyzed the influence of national culture on management practices. Empirical study at large German multinational company IBM was conducted in 1980; the research included 66 national subsidiaries, 116 000 questionnaires, and 60 out of 150 questions concerned values and opinions.

It describes the effects of a society's culture on the values of its members and how these values relate to behavior, using a structure derived from factor analysis. The theory is widely used in several areas, for instance, in cross-cultural psychology, international management, and cross-cultural communication.

In this paper, Hofstede's 6-D model is applied in international management and cross-cultural leadership. When working in international companies or multinationals, managers may provide training to their employees in order to make them sensitive to cultural differences, develop nuanced business practices. Hofstede's theory offers guidelines for defining culturally acceptable approaches to corporate organizations.

The theory proposes six dimensions along which cultural values could be analyzed: individualism-collectivism, uncertainty avoidance, power distance (strength of social hierarchy), long-

term-short-term orientation, masculinity-femininity (task orientation versus person-orientation) and indulgence.

<b>Power Distance:</b> how far less powerful group members expect/accept power is distributed unequally	<b>High-PD:</b> more coercive and referent power is used. Power Distance Index scored as 104 in Hofstede sample	<b>Low-PD:</b> more reward, legitimate, and expert power is used. Power Distance index scored as 11 in Hofstede sample
<b>Individualism/ Collectivism</b>	<b>Individualism:</b> ties between individuals are loose: everyone expected to look after themselves and their immediate family	<b>Collectivism:</b> integration from birth into strong, cohesive in-groups protecting members in exchange for unquestioning loyalty
<b>Masculinity/ Femininity:</b> distribution of roles between genders	<b>High-M:</b> men's values very assertive and competitive; maximally different from women's values	<b>High-F:</b> men's values modest and caring and similar to women's values
<b>Uncertainty avoidance</b>	<b>High:</b> Acceptance of familiar risks; fear of ambiguous situations and of unfamiliar risks	<b>Low:</b> Comfortable with ambiguous situations and unfamiliar risks
<b>Long term/Short Term orientation</b>	<b>Long-term:</b> values of thrift and perseverance	<b>Short-term:</b> values of respect for tradition, fulfilling social obligations saving 'face'

Table 4. Hofstede's Cultural Dimensions Brief Explanation (Education in Cultural Understanding Technology Enhanced n.d.)

### 3.7 The Global Leadership and Organizational Behavior Effectiveness (GLOBE)

Hofstede's theory is subjected to criticism, as some people believe it is unsuitable to measure a culture with surveys, other see inappropriate that nations become units of analysis. In addition, the survey was limited to only one company – IBM – so the information cannot be about entire national cultures. Thus the Global Leadership and Organizational Behavior Effectiveness, briefly GLOBE, began updating Hofstede's research with data from 825 organizations and 62 countries. They used variables, similar to Hofstede, however, re-named or specified some of them: future orientation (similar to 'Long-term' vs 'Short-term orientation'), and gender differentiation (similar to 'Masculinity' vs 'Femininity').

The GLOBE study examines practices and values at industrial, organizational and societal level; it also has developed dimensions of societal, cultural variation, in addition to those of Hofstede: Humane orientation; Assertiveness; Gender egalitarianism; Future orientation and Performance orientation. (Grachev, et al. 2002)

Project GLOBE examiners concluded that cultures could be differentiated based on leader behaviors and attributes; these elements are viewed as contributors or obstacles to effective leadership and comprises different leadership theories. (Ambrozheichik 2011, 312)

The goal of the GLOBE research was to develop an empirical theory to understand and forecast the impact of specific cultural arguments on leadership, organizational processes and the effectiveness of processes. (Ambrozheichik 2011, 310) In terms of its theoretical background, according to Grachev et al. (2002), the examiners from 48 countries developed the working definition, focusing on organizational leadership: "The ability of an individual to influence, motivate and enable others to contribute toward the effectiveness and success of the organizations of which they are members". (Ambrozheichik 2011, 310)

One of the objectives was the creation and development of national leadership profiles. The 21 first-order scales of leadership dimensions were after the qualitative research phase analyzed and grouped into six classes of global leadership dimensions:

1. Team-oriented leadership (globally confirmed as outstanding leadership);
2. Charismatic/Value-based leadership (globally confirmed as a contributor);
3. Humane leadership (usually seen as contributor, depending on culture);
4. Participative leadership (usually seen as contributor, depending on culture);
5. Self-protective leadership (usually seen neutrally or as an inhibitor, depending on culture);
6. Autonomous leadership (usually seen neutrally or as an inhibitor, depending on culture). (Ambrozheichik 2011, 311)

Grachev, Rogovsky and Rakitski (2002), the Russian CCIs for Project GLOBE, collected quantitative data in 1995-1996 with additional taken in 2001. During the study, 450 managers and 150 top managers, from different regions and with the average age of 38.8 years, were interviewed. The average employment duration of interviewees was 16.8 years, the number of years employed; 7.4 years, management experience; 8.6 years, employment in the current organization. The interviewees job description was as follows: 42 per cent production and engineering, 28 per cent administration, 15 per cent sales and marketing, 8 per cent human resource management, 5 per cent research and development, and 5 per cent other departments. The average educational level of surveyed managers was extremely high. (Grachev, et al. 2006, 71) People with university or college degree in technical comprised 61 per cent and 39 per cent in economics, planning, controlling and finance. (ibid.)

## 4 THE RUSSIAN FEDERATION AS A FOREIGN DIRECT INVESTMENT DESTINATION

This chapter describes the main economic indicators of Russia in the last two and a half years – 2013-2015 - and general facts about the country. The second issue of Chapter 4 is concerned with paints-and-varnishes industry and market in Russia. Moreover, it looks at Foreign Direct Investments in Russia and particularly what destination these investments go into. In addition, it shows the most attractive FDI places and states the reason of Hempel A/S choice.

### 4.1 Profile of the Russian Federation

The Russian Federation is a federal semi-presidential republic with 85 political divisions. The current President is Vladimir Vladimirovich Putin. Russia has one of the most complicated administrative divisions: three federal cities (since 2014) – Moscow, the capital, Saint Petersburg and Sevastopol, 46 provinces, 22 republics (including Crimea Republic), 4 autonomous regions, 9 administrative territories, and 1 autonomous province.

According to the last economic data, the Gross Domestic Product (GDP) in Russia was worth \$2 096.78 billion in 2014. Moreover, the GDP value of Russia represents 3.38 per cent of the world economy. (Trading Economics n.d.) The line graphic of GDP growth rates and forecasts is available in the appendices' list as Appendix 3/1.

Russia gained 4.37 out of 7 in the Global Competitiveness Index, which is a moderate level, and scored 92.17 of 100 in the Ease of Starting a Business. (Global Property Guide n.d.) (World Bank Group 2015, 19) The comparison of Russian and other economies on Ease of Starting a Business can be found as an attachment Appendix 2/1.

The unemployment rate in Russia increased to 5.90 percent in March 2015 from 5.80 percent in February 2015. (Ibid.) The number of employed persons in Russia decreased to 71.40 million in February of 2015 from 71.80 million in January 2015 against a backdrop of the crisis induced by the political situation over Ukraine and mutual sanction measures. (ibid.) The official currency is a Russian rouble. The next table shows average exchange rate RUB/EUR 2013-2015.



<i><b>Time period</b></i>	<i><b>Average rate RUB/EUR</b></i>
01/2013	0.024895
03/2013	0.025035
06/2013	0.023499
09/2013	0.022987
01/2014	0.021807
03/2014	0.019987
06/2014	0.021382
09/2014	0.020441
12/2014	0.014528
01/2015	0.013444
03/2015	0.015329
04/2015	0.017454
05/2015	0.017369

Table 5. Average Exchange Rate RUB/EUR 2013-2015 (Ozforex 2015)

The average rate rouble to euro in the period of December 2007 – May 2015 is attached as Appendix 4/1.

#### 4.2 Paints' and Coatings' Market in Russia

The production of paints and coatings regard to chemistry industry that requires basic chemicals, gas and oil, which Russia has a competitive national advantage in natural resources. Owing to its rapid growth ratio, the Russian paint industry is considered the most attractive for foreign and domestic investments. Foreign investors prefer to build facilities from scratch, whereas Russian business people invest in existing plants.

The imported materials feature a better performance, a broader selection and better environmental compliance. Naturally, they are much more expensive than domestic products. Nevertheless, the growing competition hampers expansion of the Russian paint producers who are fighting a losing battle with foreign companies that have stronger financial and marketing backgrounds. (Eurasian Chemical Market n.d.)

The Russian Federation is primarily an investment-driven economy, where enterprises strive to invest in modern and efficient facilities, technology improvements and improve these investments through modification and alteration. Below, the Porter's Diamond Model of national competitiveness is applied to the Russian paints and coating market.

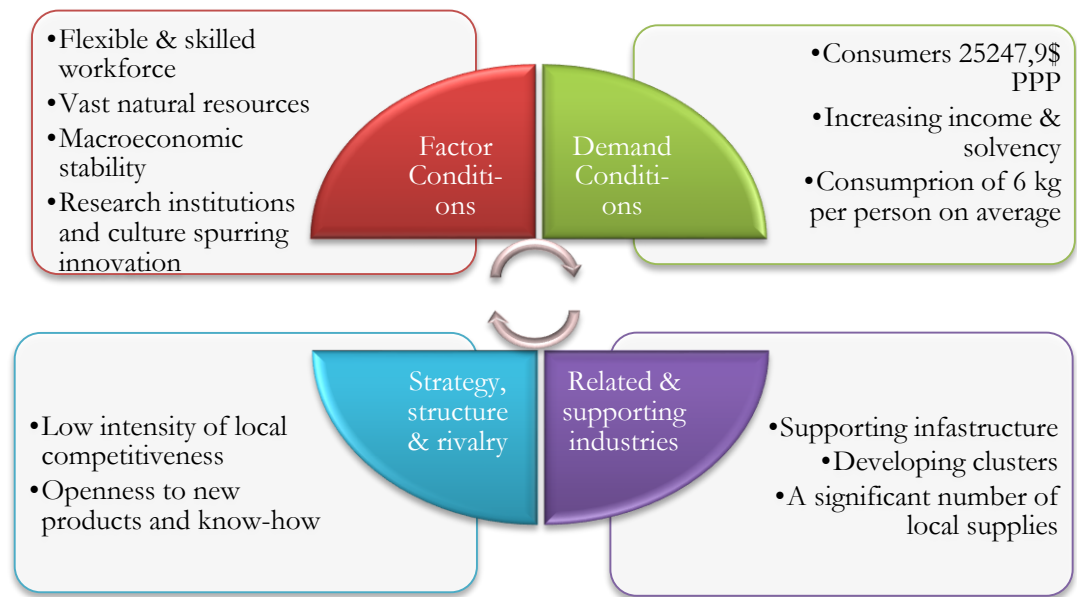


Figure 8. Porter's Diamond for the Russian paints-and-varnishes market

Where **PPP** is an abbreviation for **Purchasing Power Parity**, which is comprehended as 'the notion that the ratio between domestic and foreign price levels should equal the equilibrium exchange rate between domestic and foreign currencies.' (Financial Dictionary n.d.)

For the last few years, there has been a notable stable increase in production of paints and coatings. The increase in development of coatings in Russia is caused, primarily, by a low consumption of coatings per capita than the worldwide rate. Until 1990, consumption of paints in the B2C segment in the USSR made up 14.3 kg a year per person. Currently, this indicator does not exceed 6 kg a year, while consumption of paints, for example, in Poland is 8.8 kg annually, and in Western Europe fluctuates from 12 to 15.5 kg per person. The Russian coating market size is approximately one million tons per year, comprising up to 3.7-4.0 billion a year. The main demand of them lays on building purposes. (ibid.) According to Eurasian Chemical Market (n.d.), there are roughly 200 producers of coatings and paint in Russia nowadays - ten of them are large manufactures with output from 10 000 to 100 000 tons.

According to the latest data from IPPIC 2014, the biggest demand for paints and varnishes are in B2B segment where the protective coating from the overall market demand made up 56 per cent – approximately \$49 billion; meanwhile the decorative segment comprised 44 per cent with the turnover of \$39 billion in 2013. (Yazunova 2014) Furthermore, until 2014

the Russian market was seen as the fastest growing consumption paints-and-varnishes market in Europe. Now, however, industrial coating revenue is slightly declining and going below the revenue of decorative paints.

From year to year, a variety of the materials used for decorating is increasing considerably: there are various types of plasters, floor coverings and facing materials, paints, enamels, varnishes. As consumers need typically small volumes of paints and similar products, materials of the Western producers are in great demand. Many foreign companies establish long-term relationships with the Russian market and, as a result, construct the plants in Russia. However, the consumers note that quality depends on country of origin - Russia-based factories have a lower-quality output. They rather tend to buy 'made abroad' products. Therefore, big enterprises prefer to cooperate directly with plants in the European Union.

One of the main types of decorative coatings is dry construction mixes, which unite different types of plaster, putties, different glue mixes, fire-resistant mix for a laying of furnaces and fireplaces and etc. Thus, the Russian consumption, regarded to glue mixes, makes up 35 per cent. (Concol n.d.) Plaster and putty mixtures follow glue mixes in term of demand and sales respectively. (ibid.)

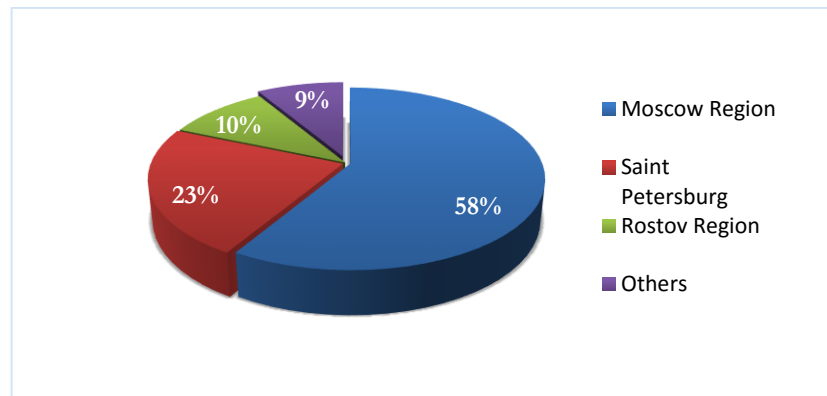


Figure 9. Leading Regions of coatings and paints manufacturing 2013 (Concol n.d.)

The Russian Federation imports paint-and-lacquer materials, mainly from Finland (14.9 per cent), Poland (13.9 per cent) and Turkey (11.6 per cent) and exports to Ukraine (35.3 per cent), Kirgizia (11.3 per cent) and Abkhazia (8.1 per cent) in 2013. (Tebiz Group 2014) However, exporters are aiming at generating the domestic demand and decrease exports; for instance, in 2013 the volume of import was 20.7 times higher than exports. (ibid.)

#### 4.2.1 Affluent Cities versus Province Regions

Foreign Direct Investment (FDI) in Russia decreased to - \$1.14 million in the third quarter of 2014 from \$12131 million in the second quarter of 2014. (Trading Economics 2015) FDI in Russia averaged \$13 170.99 million from 2008 until 2014, reaching an all-time high of \$40 147 million in the first quarter of 2013 and a record bottom point of -\$1.14 million in the third quarter of 2014. (ibid.)

Russia is a medium-income emerging market and the central role of FDI in the transfer of technology and human capital is strengthened by the long period of underinvestment in Soviet times. Moreover, Russia's strategic priorities of economic diversification and modernization of the economy reinforce the need for FDI as key instrument, which is currently relatively low compared to many emerging country peers.

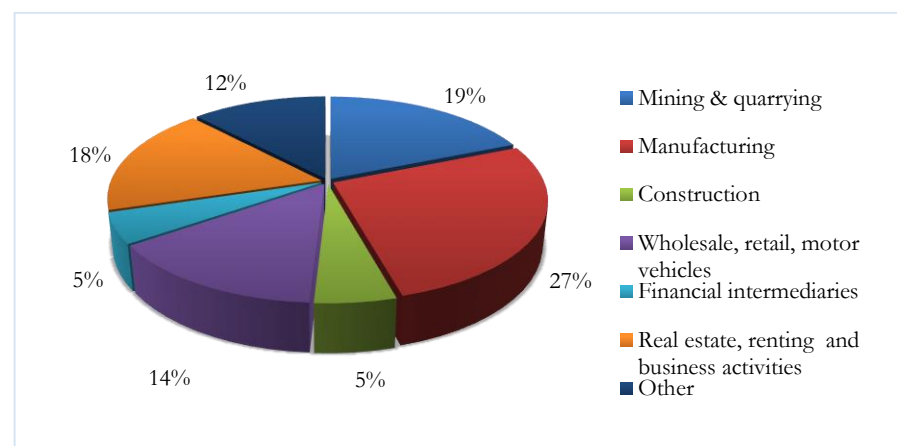


Figure 10. FDIs by Industry 2012 (Strasky & Pashinova 2012)

FDI remains heavily concentrated in only a few out of the 85 regions: Moscow, St. Petersburg and the surrounding Moscow and Leningrad Regions, respectively. They attract FDI due to their high concentration of business activities and the size of local markets. FDI inflows into the Sakhalin and Arkhangelsk Regions were gone into the oil and gas sector. Moscow remains the prime location of the FDI flows into Russia.

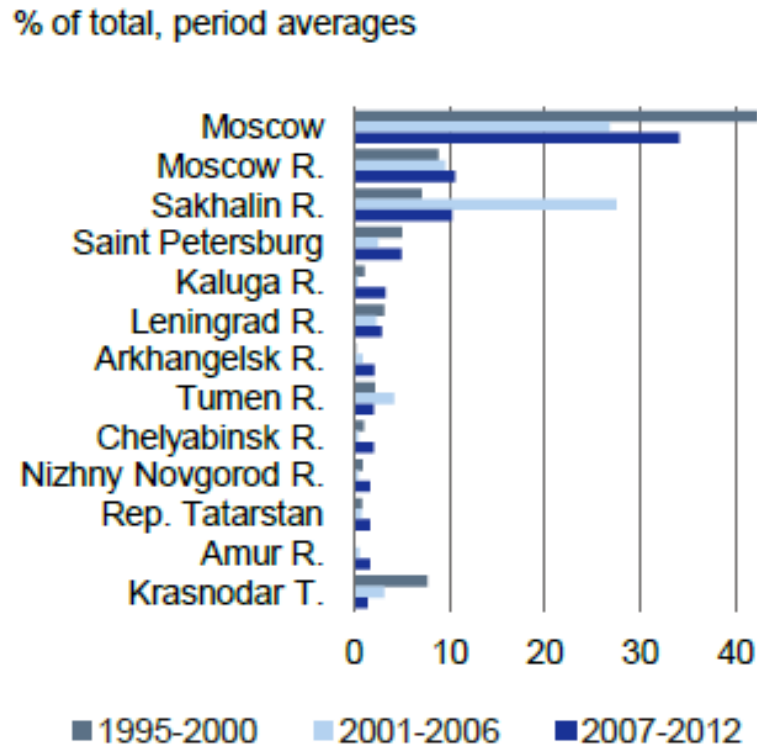


Figure 11. FDI Inflows by Regions (Strasky & Pashinova 2012)

The lack of an R&D base in Russian regions seems of secondary importance for FDI flows as many foreign firms bring their own technologies. The shortage of qualified labour and steady migration flows towards Moscow and away from poor regions are more significant deterrents of FDI inflows.

It is considered the distance of regional capitals to Moscow, the dummy for the presence of oil and mining in the region, the number of privatized companies, and the number of public administrators weighted by population and the regional tax revenues to be often significant while choosing the destination for FDIs within the Russian Federation. (Strasky & Pashinova 2012) However, the dummy regions with special economic zones, dummy for regions with the status of a republic, the density of the road network and net migration flows are also found to be insignificant while choosing. (ibid.)

Typically, the prices on doing the business in affluent cities and in regions in Russia differ depending on distance from the capital, availability of natural resources and overall investment climate. For instance, the cost of network connection (€ per one MW) comprises 321 000 in Moscow, while it contributes only 135 000 – 265 000 in Ulyanovsk Region. In addition, the cargo delivers cost from Moscow to regions is 3-4 times more expensive than from

regions in Moscow. (The Government of the Ulyanovsk Region 2012) The price of utilities, rent, maintaining costs are very high compared to the regions.

For the past few years, many investors are going to the regions in order to gain higher revenues, receive tax reductions, highly skilled and medium-income labour force, the support from the regional government and easy supply chain.

#### 4.2.2 Industrial Zone 'Zavolzhye' of the Ulyanovsk Region

In 2010, Hempel A/S announced a construction of a new production facility in Ulyanovsk that is designed to manufacture 16.3 million liters of paints and coatings per annum. Hempel and the Ulyanovsk authorities have sealed their commitment to €23 million turnkey project to be built close to the city of Ulyanovsk. (Hempel A/S 2011)

It is Hempel's first Russian paint production facility. The company has signed an investment agreement with local government officials of the Ulyanovsk region. Ulyanovsk-based plant is to help meet growing demand for the company's coatings in the Russian market. Designed to house raw materials and the finished product under one roof, the one-building factory will occupy a 70 000 square meter plot. (ibid.) Under one-shift operation, the factory will produce 16.3 million liters annually. If further capacity is required, the factory can operate with two shifts to raise production capacity up to 26 million liters. (European Coating 2011)

The Ulyanovsk region is situated in the southeast of the European part of Russia, in the center of the Privolzhsky Federal District. The territory of the region is 3 720 000 square kilometers and the latest population census indicated 1.3 million people, which makes the Ulyanovsk Region the 38th region in Russia in terms of population.

On the basis of Ulyanovsk-city, several industrial parks and Special economic zone (SEP) were established that turned the Ulyanovsk Region into one of the most favourable destination of FDI for foreign enterprises.

There were many reasons for Hempel A/S to invest in the Ulyanovsk region:

1. Strategic location and small distances to cities-milliners;

2. Guaranteed quick implementation of projects without administrative barriers and bureaucracy;
3. Unprecedented measures of state support;
4. Cheap land plots;
5. Reduction of wage fund: average salary in the region is 30% lower than in Povolzhie and 60% lower than in Russia;
6. Skilled and experienced workforce – four State Universities and numerous private colleges and universities;
7. Reduction of logistic costs: cost of cargo delivery from Ulyanovsk to Moscow is 3-4 times lower than the cost of cargo delivery from Moscow to Ulyanovsk. Location of the region also provides an equal access to the consumers in the western, southern and eastern parts of Russia;
8. Income tax accounts to 20 per cent, property tax – 2.2 per cent, land tax – 1.5 per cent, transport tax is differentiated and Value Added Tax (VAT) amounts to 18 per cent within the Russian Federation.

Ulyanovsk has 807 200 labour force with €365 monthly payment, in comparison with the average salary per month across all administrative segments in Russia, which comprises €440 as in the first quarter of 2015. (Business Life 2015) The list of average monthly salaries across all subjects in Russia can be found as Appendix 5/1.

Moreover, the Ulyanovsk Region ranked as the second place in Russia in terms of machinery construction in total amount. In fact, it is profiting from a proactive cluster strategy in attracting foreign investors. Moreover, Ulyanovsk has a unique transit location at the crossing of international transport corridors “North-South” and “West-East” connecting Siberia and the Far East as well as the countries of Eastern Asia with European part of Russia and European countries. The distance to million cities is within 1 000 km except the northern capital of Russia (Moscow - 875 km, St. Petersburg – 1 575 km, Nizhny Novgorod - 440 km, Kazan – 210 km, Samara -260 km, Perm – 868 km and Togliatti – 188 km). (The Government of the Ulyanovsk Region 2012) The logistic map with distances to other cities and countries can be viewed in the appendices’ list (Appendix 6/1).

Furthermore, Ulyanovsk took the first place among Russian regions on the openness of regional Government, referring to Rating of Information Society Development Institute in 2012 and the second place on investment attractiveness for German companies, according to Study of Russian-German Chamber of Commerce in 2012. It was also named as 1 of 3 regions the most attractive for doing business and foreign investors, according to National rating, 'Business pulse – 2013' and Study of KPMG and RSPP-2013.

The clusterization of the regional industrial complex is heterogeneous and welcomes various industries: aviation, nuclear-innovative, automotive, construction materials, agriculture, transport and logistics.

The initiative of establishing the industrial park was first announced in 2007; in 2008, the Government of the Ulyanovsk Region presented to the Ministry of Regional Development the project eligible for co-financing from the Investment Fund of Russia. (The Government of Ulyanovsk Region 2012) 'Zavolzhie' industrial park is funded in the infrastructure by Investment Fund of Russia, by the Regional Government, by the municipality of Ulyanovsk and by investors. (The Government of Ulyanovsk Region n.d. a) 'The industrial park 'Zavolzhie' started to work in 2009 as a foreign investment platform that covers 623 Ha - there is also an area of 270 Ha under engineering and transport infrastructure. Various industries occupy 263 Ha; the most famous of them are Hempel A/S with €20 million investments, Bridgestone (€30 million), Mars, Hankel, and Takata with €20 million and Sollers. (ibid.) The residents' list of the industrial park is placed in the appendices' list (Appendix 7/1).



## 5 MANAGING AN ENTERPRISE IN THE RUSSIAN FEDERATION

This chapter deals with intercultural and leadership analyses of Russia and Russian employees. First, the industrial relations are described, according to the Labor Code of Russia. The next sub-chapter talks about preferences of organizational structures of Russian senior managers and usual understanding of hierarchal structure in a company of employees. The last two sub-chapters tackle the issue of cultural differences and leadership style that is appropriate for Russia. It also connects the above said issues with socio-labour relations management.

National features and cultural values can be expressed so strongly that it allows us to speak about the compliance of specific models of the organization of a certain country of the world (for example, the American, Japanese, German model). The basis of such models is made by unique organizational culture paying attention to the national values.

According to the business research done by Solovyev, Tutov and Pichugova (2015) from Tomsk Polytechnic University, there are typical management obstacles in all Russian enterprises. These problems are 1) planning departments' responsibilities and developing work descriptions; 2) coordinating departments and employees within one organization; 3) and authoritarian management style. This research is more concerned with leadership practices and efficient organizational design to affect the employee's performance in a positive way.

Implementing the advanced countries' organizational design and management style in the Russian market demands the awareness of the cultural distinctions existing between enterprise's country and Russia. Due to the radical changes of economic, political, ideological, social and other conditions in Russia, there is a process of formation of national business culture which had an essential impact on organizational culture. The best understanding of the Russian business culture and its national features is very useful for work in Russia for multinationals, creations of joint ventures and development of other forms of the international cooperation with Russian companies. Following the first sub-chapter contains general information about industrial relations provided by the Labour Code of the Russian Federation.

In the past decade, domestic and foreign scientists conducted empirical researches with the purpose to reveal cross-cultural distinctions and features of the business culture and to estimate its influence on organizational structure and leadership. Dutch anthropologist, Hof-

stede, conducted one of such researches in 1994; the Global Leadership and Organizational Behaviour Effectiveness (GLOBE) took the following modification of his research. Also in this chapter, these analyses' results will be presented and analyzed in order to define the most appropriate organizational structure and management style for Russian employees.

## 5.1 Industrial Relations in Russia

The term '**industrial relations**' is the regulation of work and employment through a combination of interdependent market forces, state intervention and collective bargaining. For instance, markets are always socially constructed or laws are to be interpreted, observed and enforced by both employers and employees. (Hyman 2005, 12) However, the relative importance of each of the three elements varies considerably across countries. As it is understood today, industrial relations are an invention of the nation-state era. In the majority of countries, industrial relation systems are created on a local and occupational basis; however, in the twentieth century they became consolidated within national institutional frameworks - each element has acquired unique characteristics, reflecting nationally distinctive economic structures, political traditions and social practices. (ibid.)

Nowadays, Russian new rules and practices of labor relations collide with old ones. They still reflect the Soviet past; however, they are designed to meet a market economy and a democratic society. After more than 10 years of economic reforms and the approval of a variety of property forms, the new Labour Code (briefly, LC) was approved 26 December 2001 and came to force only 1 February 2002. Prior to that, the employment relationship regulated by the Labour Code passed on during the Soviet period, but with numerous amendments, often contradicting with their general meaning. During the restructuring phase, various trade unions were set up, and the former Soviet acts were transformed into the Federation of Independent Trade Unions of Russia (FNPR) the members of which can be up to now representatives of an employer - from upper-management to low-management. In fact, a system of all hybrid structures was established. (Natlex n.d.)

While FNPR and its regional organizations set themselves the priority task of defending the terms and conditions of employment of their members in the transition to a market economy, enterprise (and many regional) trade union organizations still gives priority to their traditional social welfare functions, usually referred to as defending the 'social guarantees' of the

employed population. The trade unions provide advice on both work and personal problems, distribute sick pay, provide material support to cover the cost of funerals or exceptional medical expenses, help their members resolve their housing problems, organize child-care, provide subsidized places for children in summer holiday camps, provide and organize sporting facilities, provide subsidized vacations and rest breaks in sanatoria to their members and a whole host of other benefits and facilities. Nowadays, unions continue to collaborate closely with the Social Insurance Fund, most of whose staff are former colleagues, which could not function without the trade unions' continuing to distribute the benefits financed by the Fund.

The freedom of association is guaranteed by the law / constitution, but limited by FNPR. Collective agreements exist in the industrial relations, but only one agreement is permitted by the enterprise. Moreover, the Labour code provides a right for employees to request collective agreements. According The Federation of International Employers (n.d.), 50 per cent of the workforce has a membership in a trade union and 10 per cent are numbered in independent trade unions. Legal protection from discrimination against union members is not enforced and reprisals are commonplace. (ibid.) Trade Unions have right to strike on paper, in the reality, this right is very limited. There is a labour arbitration court in operation for the Moscow district only.

Registration procedures for unions are governed by the Law on Trade Unions, which specifies that registration requires a simple notification and submission of documents. Regional departments of justice throughout Russia have often ignored the procedures set out by this law and refused to register new unions by requiring changes in charter documents or confirmation of attendance at founding conferences. Such practices have prevented the formation of new unions or the re-registration of existing ones. This situation has been complicated by procedures set out in the Labour Code. Less than 20 per cent of enterprises have registered the existence of a collective agreement, although the FNPR claims that 80 per cent are covered. (ibid.) Salary areas continue to be one of the most crucial problems in many industries.

Minimum working age	16 (with limitations of age 18)
Statutory minimum wage	5 965 roubles (approx. €104), but used to calculate state benefits

Standard workweek	40 hours
Minimum annual holiday entitlement for full-time employees	28 calendar days after 6 months' service + twelve public holidays
Payment of overtime	<ol style="list-style-type: none"> <li>1) The first 2 hours of overtime work must be paid at 150 per cent of usual hourly pay</li> <li>2) The following hours must be paid at no less than 200 per cent of usual hourly pay</li> <li>3) Up to 120 days of overtime per annum.</li> </ol>
Trial Period	Up to three months
Maternity leave	<ol style="list-style-type: none"> <li>1) Paid up to 140 days (70 before the birth and 70 after)</li> <li>2) Unpaid leave until the child reaches three years of age</li> </ol>
Federal Labor Inspectorate (FLI)	<ol style="list-style-type: none"> <li>1) The investigation of work-related accidents;</li> <li>2) The consideration of administrative offence;</li> <li>3) The violation of employee rights, etc.</li> </ol>
Length of weekend	No less than 42 hours
Sick leave	60 and 100 per cent of the employee's earnings, depending on the employee's uninterrupted work history and other circumstances
Compensation frequently	Every fortnight

Table 6. Industrial Relations' Regulations in Russia (Consultant n.d.)

## 5.2 Common Organizational Structures within Russian companies

In order to answer the sixth research questions – ‘What is the most common organizational structure in Russia?’ - the definition of ‘management’ should be given as organizational structure is a part of management study and deals with the ways of managing employees. The term **‘management’** means a process that deals with or controls activities or people. (Oxford Dictionaries n.d. a)

Power in most Russian companies is concentrated at the top. The organizational structure tends to be functional and the general director’s authority is unquestioned. Bosses assume they have to micromanage while employees generally avoid responsibility and expect to be managed closely. However, some Russians employed by Western companies have been able to adjust to a more divisional, egalitarian management style. Worth noting, since many concepts in the last 85 years of the history of Russia changed their original meaning. The dominating economic theory in the Soviet universities was based on the Marxist-Leninist doctrines, which still color and cloud the perception and the meaning of economic concepts and terms nowadays. (Shestakov 2010)

The linear-functional structure of an organization is the most common corporate power structure throughout Russian enterprises. It is found not only in owner-operated firms, but also in privatized enterprises and state corporations. However, this linear-functional organizational structure has several weak points for Russian companies, e.g. 1) limitation of the heads, 2) cooperation problems, and 3) problems connected with information and resource communication within company’s subsidiaries. (ibid.)

According to Shestakov (2010), there are two main objectives of Russian senior managers to create vertically integrated structures: 1) control over all industry elements; 2) control over the decision-making process and maintenance ‘order-control’ management.

The Soviet administrative method with its downward vertical structure dominates in organizations. Complete ways of control over management and self-regulation are often decreased to direct supervision via officers and minor business partners. The explanation for this is a certain mindset created by Soviet training and education.

In modern Russia, the organizational structures of enterprises are linear, although there have been various unsuccessful attempts to organize business activities in the framework of more

efficient divisional and matrix structures. Linear structure is the most suitable for small business and small production facilities, but in bigger organizations, the following problems arise:

- 1) Difficulties in information exchange;
- 2) Lack of flexibility in a rapidly changing market;
- 3) Biased flow of information.

A linear-functional structure creates huge enterprises with all the negative consequences for the senior management level (theft, corruption, misinformation, and the like).

In post-USSR Russia the real explanation for the creation and existence of linear-functional structures is not an economic but rather a normative and conceptual problem. The metamorphosis of Soviet and post-Soviet social values towards the market economy is not about freedom, justice, fairness or efficiency, but more about the absence of control and unlimited personal enrichment. These outcomes lead to issues that have more political nature:

- 1) Gaining of profits through dividends by owners; (Shestakov 2010)
- 2) Control over employees', blue- and white-collar workers of all levels, consumption of employees; and thus creation assets' scarcity. (ibid.)

### 5.3 Russia in Hofstede's Six Dimension Model

Exploring the Russian culture on Hofstede's Six Dimension Model, Russia, scoring 93 in 'Power Distance'-D, is a nation where power owners are significantly distant in society. (The Hofstede Centre n.d.) Behaviour is to reflect and show the status differences in all areas of business communication and activities; traditional approach is top-down, i.e. downwards functional structure, and provides clear guidelines and locations for any task.

The Russians tend to be collectivists scoring a lower mark of 39 in the dimension of 'Individualism'. (ibid.) Family, friends and even fellows are extremely important to get on with daily's challenges. Relationships are crucial in receiving information, meetings or promising

negotiations. Relations need to be more personal, authentic and trustful before the actual matter or business. (ibid.)

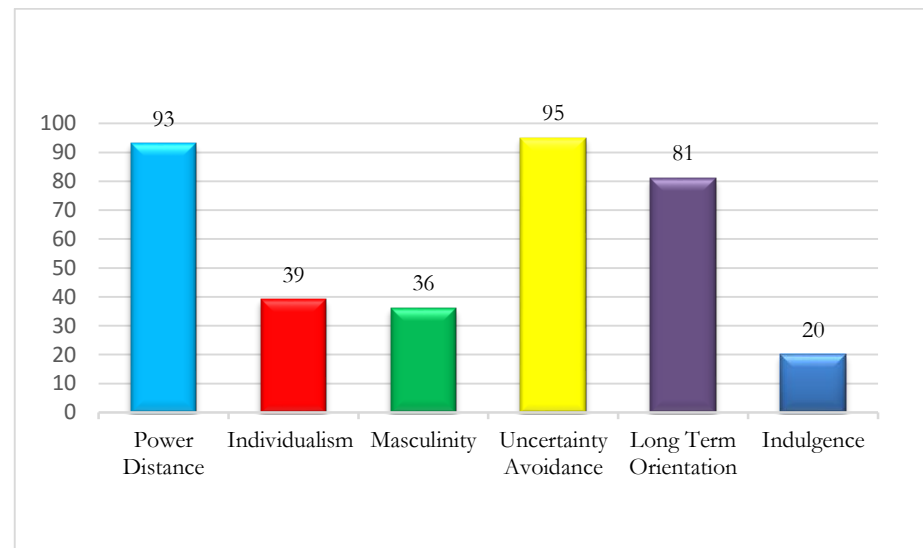


Figure 12. Russia in Hofstede's 6-D Model

A low score of 36 points (feminine) on 'Masculinity' dimension shows that the dominant values in the Russian society are care for other people and the quality of life. (The Hofstede Centre n.d.) High standards and quality of life means success. Feminine society likes what they do, but do not strive to be the best. Russians both at workplace or in a meeting behave very shy and tend to understate their personal achievements and capacities. (ibid.) They are modest while talking about themselves and people employed by the state live on a very modest level of living standard. The Russians are able to accept everything that comes from the authorities; however, it does not mean they agree with this. This phenomenon is more connected with 'Power Distance' dimension.

Scoring 95 on 'Uncertainty Avoidance' dimension, Russians feel scared by ambiguous situations, also the Russian bureaucracy is one of the most complex one worldwide. (ibid.) Thus, detailed planning and briefing is very common. Russians prefer to have a plan of discussion or negotiation and background information. With strangers Russians behave very formal, distant and highly respectful.

With a very high score of 81 on 'Long Term Orientation' dimension, Russians definitely have a pragmatic mindset as a national feature. (ibid.) Accordingly, people believe that the truth depends on the situation, context and time. The Russian people adapt traditions quite

easily to changed conditions, save and invest thriftiness and firmness in achieving the needed results.

The discreet type of the Russian culture can be visible through a very low score of 20 on 'Indulgence' dimension. (The Hofstede Centre n.d.) Russians tend to be cynicistic and pessimistic and do not put significant emphasis on spare time activities, rest and control the gratuity of wishes. Russian believe that their actions are reserved by social norms and sure that gratification of themselves is incorrect and shameful.

#### 5.4 Leadership Style

In order to talk about preferable leadership style for Russia-based companies, the 'leadership' should be defined. The term '**leadership**' is 1) an action or an ability to lead a group of people or a company; 2) a position of being a leader. (Oxford Dictionaries n.d.) b) The leadership goes hand in hand with management. They are linked and complementary, but they are not exactly the same.

Russian management style has some features that are unique for the country; additionally, company structures reflect the traditional Russian mentality. Russian companies tend to be centralized and directive and driven by one strong leader who makes all strategic decisions almost without any consultation or assistance. Little consultation is expected from people of the lower management level of a company. The majority of employees sees frequent consultation as a sign of weakness and inability to decide. Middle managers usually do not have much power and control over strategy and do not take a significant part in strategic decisions. The biggest reason for the delay in reaching a decision in Russia is underestimation of the real decision-maker. This tendency could be explained by the Soviet past or a fact that throughout its existence Russia was ruled by dictators or very authoritative persons.

Regarding the decision-making process in general, many businesses have a strong hierarchical structure and employees show respect to those in positions of authority. (Filippov 2012) In Russia employees show respect for those who are older and have more experience or knowledge. Managers expect their subordinates to follow instructions implicitly. Subordinates do not challenge with them, because managers can lose their respect and authority.



(ibid.) Usually for subordinates it is comfortable being dictated, because they know that this is the only way for a good business.

Summing the above information up, it is right to say that a company's success depends on a leader; leadership style tends to be autocratic management style. However, 'westernization' of Russia led to new for the Russia management style - participative management style. Each leadership involves manager, subordinates and staff in the decision-making process.

#### 5.4.1 GLOBE Research in the Russian Segment

Thanks to GLOBE research, it is significantly easier to analyze Russian leadership style, and define the most common one. Out of the six leadership dimensions, **charismatic, team-oriented, participative, and autonomous leadership** were considered as outstanding leaderships; **humane leadership** was counted insignificant leadership and **self-protective leadership** was shown as slightly significant leadership. **Charismatic leadership** gained the highest score of 5.66 out of maximum 7 points and is recognized as a medium and slightly contributes. **Autonomous and participative leadership** got 4.67 that is lower than slightly significant leadership. (Grachev, et al. 2002)

The given below graphic shows leadership scores for Russia in each of globally recognized endorsed dimension, where orange circles indicate the maximum mean and squares – the minimum mean within all surveyed 62 countries.

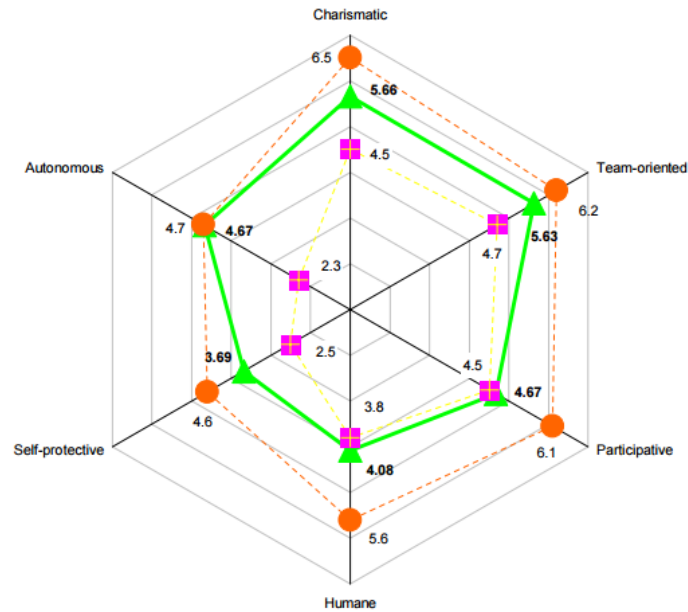


Figure 13. Six Global Dimensions of Russian Leadership According to Project GLOBE (Grachev, Rogovsky and Rakitski 2002)

Where the highest leadership dimensions are:

- **Charismatic/Value-based** global dimension leadership gained 5.66 of 7;
- **Team-Oriented** leadership, on the other hand, received 5.63;

The comparative analysis shows that Russia has several extreme scores: high in power distance and low in uncertainty avoidance, future orientation, performance orientation, and humane orientation. Low score in ‘uncertainty avoidance’ can mean favorable conditions for entrepreneurship. Low ‘future orientation’ can be explained by a lack of vision in management and entrepreneurship and by a primary focus on survival and short-term business development. Moreover, 5.92 on ‘performance orientation’ hardens the mechanisms of encouragement for managers so they hardly focus on continuous improvements and learning outcomes. Low score on ‘humane orientation’ leadership makes it questionable whether long-term investments in HR should be made. The high ranking on ‘power distance’ explains complicated bureaucratic measures in crisis management and in reorganization companies and industries (Grachev & Bobina 2006).

According to Grachev and Bobina (2006), six dimensions, which are extremely important to define the most appropriate leadership type, are visionary (6.07); administrative competence

(6.03); performance orientation (5.92); inspirational (5.89); decisive (5.86) and integrity (5.72).

These global leadership dimensions in the Russian segment show what makes its current leadership successful and effective. Important attributes are visionary and administrative competency. Decisive, performance orientation, and inspirational integrity, team integration, collaboration, and diplomatic follow the competency in administration and vision and play a big role in establishing excellent leadership. Meanwhile, self-sacrifice, modesty and human orientation, status consciousness, and conflict inducer do not affect it significantly.

Gratchev et al. (2002) summarized their findings on perceptions of an effective leader in Russia as follows:

‘An administratively competent manager with abilities to think strategically, capable to make serious decisions and inspire his followers to meet performance targets. To a certain extent, he/she relies on teams and through diplomatic and collaborative moves succeeds in integrating efforts of their members. However, in his/her actions there is not much interest in humane orientation to the others and modesty in personal behavior. He/she may sacrifice a lot and does not take much care of saving face. Status is not important to the modern Russian leader.’ (ibid.).

#### 5.4.2 Socio-Labour Relations Management in Russia

According to Medvedeva (2014), collectivism, ethnic tolerance, primitive forms of mutual aid, mutual rescue, conscientiousness, aversion to a consuming culture, a way of thinking both this and that, and a striving for world integration have a non-economic nature in the Russian Federation. This means that the Russian mentality consists of values that usually occur in a post-industrial society; however, Russia is an industrialized country. These values are the signs that the Russian society develops in accordance with the current world trends. Therefore, the positive characteristics of the Russian mentality should not be taken as an advantage during the transaction.

On the other hand, such group of characteristics, that includes disrespect for the law and property, long-suffering, utopian thinking, dislike for business organization of labor, show a

lack of individual economic rationality. (ibid.) The following table presents the Russian system of values at the workplace and compare it with the ideal world value system.

<i><b>Russian System of Values</b></i>	<i><b>'Ideal' World System of Values</b></i>
<b>Personality</b>	
<ul style="list-style-type: none"> <li>• Collectivism;</li> <li>• Rationality, focused on human values;</li> <li>• 'Poverty is not a defect', a poor person is closer to God;</li> <li>• The backwardness of the person as an actor in social relations, inability to play a positive social role;</li> <li>• Searches for happiness and sense of life in general;</li> <li>• Creativity;</li> <li>• Charity;</li> <li>• Conscientiousness;</li> <li>• Idea of the internal transformation of a personality, self-perfection for the benefit of society;</li> <li>• Perception of social questions as personal ones.</li> </ul>	<ul style="list-style-type: none"> <li>• Individualism;</li> <li>• Rationality, focused on material values;</li> <li>• Poverty is a defect, an indication of poor work;</li> <li>• An ability of the person to play a positive social role;</li> <li>• Self-denial in order to achieve;</li> <li>• Use of time for economic purposes;</li> <li>• Justice;</li> <li>• Pragmatism;</li> <li>• Orientation to the 'effect', to the activity, directed toward the 'outside';</li> <li>• A discharged relation to the problems of society.</li> </ul>
<b>View of the World</b>	
<ul style="list-style-type: none"> <li>• Need perception of the world as a whole;</li> <li>• Utopian thinking, thinking in images;</li> <li>• Thinking by a principle 'both that, and this';</li> <li>• Longing for absolute social values (empire of freedom, justice).</li> </ul>	<ul style="list-style-type: none"> <li>• Perception of isolated parts;</li> <li>• Realistic thinking;</li> <li>• Thinking by a principle 'or – or';</li> <li>• Individual, group and corporate egoism.</li> </ul>
<b>Society</b>	
<ul style="list-style-type: none"> <li>• Etiquette of belief;</li> <li>• Aversion to a consuming culture;</li> <li>• Equality;</li> <li>• Respect for state authority, traditional consciousness, solidarity;</li> <li>• Trust, primitive forms of mutual aid;</li> <li>• Respect for a strong leader;</li> <li>• Ethnic tolerance, openness of cultures;</li> </ul>	<ul style="list-style-type: none"> <li>• Etiquette of belief;</li> <li>• Consuming culture;</li> <li>• Inequality;</li> <li>• Competitive consciousness;</li> <li>• Dissociation, anonymity;</li> <li>• Estimation of the leader on business qualities;</li> <li>• Propensity to ethnic intolerance;</li> <li>• Respect for the law;</li> </ul>

<ul style="list-style-type: none"> <li>• Disrespect for the law ('Make your judgment based on conscience rather than law') and property;</li> <li>• A moral attitude to wealth (a moral right to wealth depends on who works);</li> <li>• All that is moral is effective (socio-economic aspect);</li> <li>• Rationality oriented to values;</li> <li>• Dislike for strict discipline, dislike for business organization of labor;</li> <li>• Socio-economic result;</li> <li>• Trust;</li> <li>• Unwillingness to work on the specific person;</li> <li>• Interests of society.</li> </ul>	<ul style="list-style-type: none"> <li>• Pragmatism;</li> <li>• All that is effective is moral (economic aspect);</li> <li>• Economic rationality;</li> <li>• Discipline, business organization of labor process;</li> <li>• Economic result;</li> <li>• Functional dialogue;</li> <li>• A rational attitude to a problem;</li> <li>• Interests of individual.</li> </ul>
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Table 7. Russian System of Values vs. 'Ideal' World System of Values (Medvedeva 2014)

Taking the above described sociocultural features of the Russian system of values, it is fair to say that the model, based on the native Russian traditions and values, is basically collectivistic with a paternalistic type of social and labor relations, with a large number of objectives, with a predominance of collective interests over individualistic. (Medvedeva 2012) The collective relationship at workplace often wears an informal character (trust, mutual support, etc.).

Socio-labour relations management in Russia differs significantly from the majority of ideologies and it makes it harder for foreign companies to successfully operate there. Traditional features of the Russian social and labor relations are the respect for state authority, propensity to charismatically strong leaders, sometimes unwillingness to take responsibility, disrespect for formal laws, dislike of and disrespect to discipline in business life. (Medvedeva 2014)

## 6 INTERGATION ISSUES

This chapter focuses on the integration process, compares Hempel's A/S and traditional Russian companies in terms of organizational structure, management style and leadership, and employees relations.

### 6.1 Structural Integration of Hempel's A/S

Hempel's A/S is consistent to a matrix organizational structure; meanwhile, Russian employees favour linear-functional organizations and meet it hardly when new employers strive to introduce and adapt a different way of management.

Numerous enterprises from advanced countries, for instance, USA, Germany, Holland, tried to implement a matrix organizational structure on their Russia-based facilities. The way from the linear-functional structure to the matrix is a common step in re-organization especially for multinationals. However, in Russia some companies carried out a re-organization from the matrix to the functional.

At a traditional conference for partners in 2001, IBM East Europe/Asia and IBM CEMA (Central and Eastern Europe/Middle East/Africa) reported a considerable improvement of the financial performance in the Russian segment in 2000. (Consulting Pears n.d.) Penko Dinev, the head of IBM East Europe/Asia in 2001, mentioned that a successful basis was the reorganization, which was carried out at the Moscow office by IBM. Earlier there was the matrix structure of management, but it did not work as it could, for example, in America: 'In America such system would work, in Western Europe — step by step but could, in Eastern Europe and Russia - no way'. (ibid.)

The vast majority of modern corporations in Russia uses a linear-functional organizational principle in regional representatives. At the top of a hierarchy, a region key manager (country manager) who is responsible for decision-making connected with all business activities in the country is placed, for example, IBM, Microsoft, and Compaq. Nevertheless, there are examples of foreign successful companies who adopted matrix approach in the Russian segment. For instance, the principle of matrix structure is realized in Intel. Thus, the EMEA countries are divided into five regions and each region has a marketing senior manager who is responsible for corporate marketing. Therefore, there are seven directions of corporate

marketing: direct advertising, Intel-inside, direct work with retail partners, etc. In each direction, there is a functional manager. All these 13 managers report to one manager. The obvious advantage is the flexibility in adoption of operational decision-making; the disadvantage is complex and extreme communications via e-mail, meetings, or business trips. This flexibility is achieved through strict internal controlling and reporting systems.

First of all, there is an in-built mindset of a Russian employee in terms of company's structure and governance that he must receive constant guidelines, be controlled and be not in charge directly for the performance. In terms of employees' behavior, a worker is usually evaluated as an independent player, while in a matrix one – as a team player. Moreover, the practice of 'team building' or working in a group is mandatory in colleges' or school's curricula in the globalized countries. Nowadays, the education system is being reformed in a more Western way; however, there is still a long way to place a set of a team player in the Russian people's minds despite its collectivistic inclination. Therefore, the employees are to be taught how to work in a team where everybody is responsible for a range of tasks and must interact with colleagues.

Furthermore, multitasking is a key issue in the matrix structure that the Russian people would resist. These multitasking needs to be implemented by gradually increasing the responsibilities range of an employee and giving some incentives to him. There is no command management practice in the matrix design compared to the functional. Employees must work on their own and be responsible for the outcome so their carrier depends on the results of their work done.

Under the usual-for-Russians linear-functional structure, the leadership team goals could simply be a collection of unrelated goals of individual participants of a team. In Hempel, this collection is no longer possible, thus, the goals of a leadership team is to make sure all members of teams are aligned with every goal.

Moreover, the leadership team is to be trained to manage and resolve conflicts. It is critical that senior management pushes these disputes back to resolve. To help to adapt to such alignment, the leadership team should take part in a series of sessions to roll out its strategy, introduce the new structure and organizational roles, and define the responsibilities of managers. (Horney & O'Shea 2009)

Building the matrix structure, according to Kolodny (1979) and Peters (1979), there are five stages distinguished of transformation from linear-functional to matrix. In the first stage, an organization begins as a traditional or functional type's hierarchy, complexity is increasing and dynamic conditions are appearing. In the second stage, the traditional functional hierarchy remains the organizational structure, however, dual reporting and controlling, a team from different departments are added to help with occurred complexities. During the third stage, matrix management undertakes a permanent form in the organization, although the functional hierarchy is still considered the primary organization form. The fourth stage is the 'matured matrix' stage. In this stage, a balance of authority exists between the functional hierarchy and the matrix organization. The fifth stage is called 'beyond the matrix' stage. This is the stage where a company tend to have a unique structure that is already beyond the matrix characteristics. An enterprise may and can stop at any stage if the appropriate factors for development do not occur. (Horney & O'Shea 2009) The table below shows the main differences in linear-functional and matrix structures.

<b>Traditional Functional Organization</b>	<b>Matrix Organization</b>
Independent behavior	Interdependent behavior
Functional-only focus	Process/product focus primary with functional supporting
Top down governance	Cross-functional teams and steering councils governance
Command and control management practices	Alignment and influence management practices
Linear thinking	System thinking
Optimize the parts as goal	Optimize the whole as goal
Problem solve through reductionism to increase effectiveness	Manage the interfaces to increase effectiveness

Table 8. Functional Organization vs. Matrix Organization (Horney & O'Shea 2009)

Creation of communication plan as a part of corporate's policy helps to succeed in the implementation by reducing the possibility of conflicts. The clear definitions of who is responsible for what, who reports to whom and when must be a part of this communication plan. It should include information needs of both functional and matrix managers. Often the modern technology can help to accomplish this through the creation of project websites and any other system – OneHempel Intranet and Microsoft Office Links. It is very important to obtain senior executive support, as it appears to be a must for the success as the change requires taking many tough decisions. Alignment is crucial so that managers and employees do



not receive mixed messages, particularly around goals and priorities. In the matrix organization, once goals have been established - they are regrouped into functional goals. Going to the theory of matrix structure, the focus in goal setting is to optimize the whole rather than optimize the parts that make up the whole.

Structural integration refers to the use of liaison devices or coordinating mechanisms to encourage mutual adjustment within and between units. (Mintzberg 1989, 365) These linking devices may include formal liaison positions, task forces, coordinating committees, and fully developed matrix structures. The very nature of the strategic planning process used by many foreign enterprises operating in Russia requires regular communication across the organizational structure both vertically and horizontally. As an integral part of the restructuring, some organizations have even declared the strategic planning committee to be a permanent liaison vehicle, and have adopted a matrix structure to facilitate the implementation and control of strategies. (McCarthy, Puffer & Shekshnia 2004, 162)

The figure below illustrates the strategy matrix structure used by organizations. In this example, general strategies are created by the strategic planning committee. Each strategy is assigned to one committee member who is ultimately responsible monitoring the accomplishment of the strategy. According to the plan below, individuals in the committee are given the responsibility for these specific goals, each of which has a detailed action plan. Individuals directly responsible for goals.

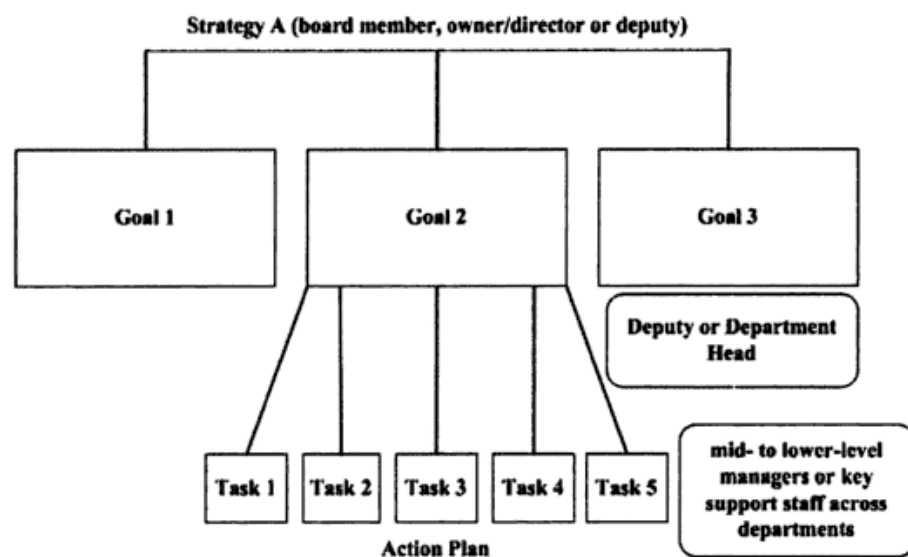


Figure 14. Strategy Matrix Structure (McCarthy, Puffer & Shekshnia 2004, 160)

The type of broad structural reform described above is a radical change for Russian firms as it fosters a context that is more transparent and interactive than most Russian managers and employees have ever experienced. By putting people from all parts of the organization into a matrix structure for strategy implementation, and deliberately creating horizontal linkages across the organization, top executives pave the way for greater transparency and accountability within and between departments and divisions. However, without personal consequences for individual actions, the likelihood of attaining higher levels of individual commitment, much less achievement of strategic goals is relatively low despite the enhanced transparency within the organization. (McCarthy, Puffer & Shekshnia 2004, 162) According to McCarthy, et al. (2004), the final ingredient is to motivate employees to fully embrace a new context of accountability and transparency is to establish a clear linkage between new strategies, structures, goal achievement, and employee compensation.

Cumulative experience indicates that Russian senior managers who take an active role in creating the protocols and control measures used to monitor and reward their own performance are more likely to accept that they can no longer hide from responsibility behind a cloud of organizational ambiguity.

## 6.2 Integration of Hempel's Leadership Practices

Analyzing forms and methods of management in the different countries, it is impossible to consider the German punctuality, the English conservatism, the American pragmatism, the Japanese paternalism, the Russian laxity as something common between all nations. An employee cannot be free from society, from himself and from his mentality. Thus, he is always out in a certain hierarchical system: either he subordinates and directs, or he submits. Even alone, he acts subconsciously according to his mentality. This is a bright example of interdependence of management style and mentality of the staff.

Adaptation of other countries' experience can bring even more negative result to the country as the Russian mentality was always characterized by polarity existence, aspiration to grotesque, finishing any situation excessively. Russia represents a freakish combination of Westernism and Slavophilism, it always stood between Europe and Asia. From Asia, Russia absorbed a form of group (team) thinking - collectivism - and from Europe - individualism with outlook inherent in it. Collectivism and individualism appear to be two fundamental

qualities making a basis of the Russian mentality. In addition, it is necessary to consider that the Russian mentality acts dynamically and tends to the individualization that makes its own way in the conditions of an emerging market. The system for the management of a company in Russia has to consider distinguishing and marking out potential employees who reveal the individual mentality.

The support the diligence of employees, orientation to diligence and punctuality must become a peculiar feature of the Russia-based management. These qualities of Russian people must be encouraged in every possible way. By educating these qualities, the gradual transition from tough administrative decisions to the flexible should be carried out. Today rigidity is a necessary and compulsory measure. The strategic prospect of the Russian management is the movement to softer, but also more effective way or leadership that Hempel applies.

Nowadays, researchers agree that it is rather difficult to define an image of the modern successful company in Russia. Small and medium-sized Russian companies often remind a "family team". This results from the fact that the majority of the private Russian companies exists from six to eight, at most ten years and are either at the stage "infancies", or in a phase of "growth". For these stages of a life cycle of an organization's employment by 'family principle', high degree of trust, higher reliability and safety of activities, is characteristic. However, in the process of growth and development, 'family' companies gradually transform to functional organizational structures.

According to the latest researches, Russian employees orientation to material values (about 95 per cent of respondents) prevails. Only five per cent prevails the orientation to the personality. (Limba. n.d.)

Traditionally, workers, almost 75 per cent, are addressed as labour force and the domination of senior level is obvious. (ibid.) Only 15 per cent of full-time employees can agree that they are being addressed as a person taking their values and desires into consideration. (ibid.)

Russian collectivism can play a positive role in establishing the facility and starting the production as employees have a strong communal spirit and collaboration openness. However, a good key manager should react properly and in time irrational approach to solute problems and change the mood of discussion in a more productive way. Despite collectivism and friendliness, Russian employees are very competitive, so each of the workers must have disciplined duties and responsibilities, controlling and reporting mechanism. Leaders are ad-

vised to increasingly become ‘co-employees’ rather than employers, with typical command and control models now replaced by communicative and collaborative approaches. However, the senior management should employ people with international experience. Therefore, they could monitor other employees’ behavior and evaluate it. The mechanism of strict performance monitoring, incentives, fringe benefits and controlling are to be established. The key positions should be taken by expatriates in the first five years in order to smooth and rationalize the production and communicational channels.

Moreover, looking at the comparison of Denmark and Russia on Hofstede’s 6-D Model, on the image it is seen a big difference in the attitudes and typical behavior in a workplace due to opposite scores in each of five of six dimensions.

The Danes appear to be independent, have equal rights and accessible superiors, respect is concurred by expertise. (The Hofstede’s Centre n.d. b) The power is usually decentralized and senior managers rely on the experience of their team players. Employees seek for consultation and guidelines. Danes are very easy in dealing with business and employees; Danish managers prefer direct communication. (ibid.)

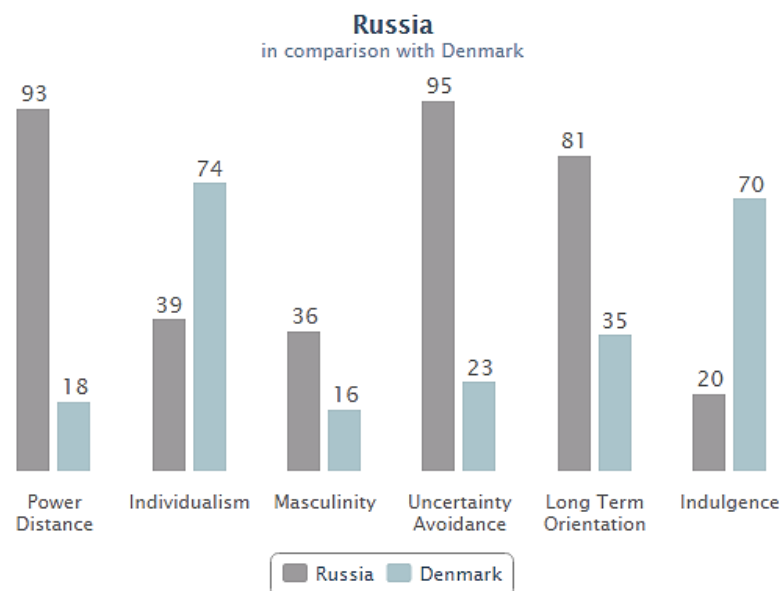


Figure 15. Russia in comparison with Denmark on Hofstede's 6-D Model (The Hofstede’s Centre n.d. b)

Despite the differences, Denmark and Russia are feminine countries that essentially means both nations strive to balance social life, business life and private one, they are supportive to

each other, helpful and willing to find consensus and a golden mean in issues; the decision-making process takes place through involvement. Nevertheless, Danish people do not need a complicated structure of power – Russian cannot exist without it in the dairy life. Danes have a strong concern with establishing the absolute truth; they are normative in their thinking and have a positive attitude and a tendency towards optimism paying careful attention to leisure time. (The Hofstede's Centre n.d. b)

According to the GLOBE study, Russia preferred 'visionary and inspirational charisma, integrity, decisiveness, performance orientation, team integrator, administratively competent, diplomatic, collaborative team orientation' as the most significant leadership elements. (Grachev, et al. 2006, 14) These key conditions of successful leadership are made mostly of transformational/charismatic and team-oriented leadership. The more strategic and value-adding initiatives traditionally lead to greater strategic pay offs. On the contrary, Hempel A/S, as a company from Nordic European country, considers self-protective leadership to inhibit success. Self-protective leaders ensure the safety and security of team members. This type of leader concerns himself with face-saving activities and follows established procedures.

This self-protective leadership dimension is classified as universal negative leadership and focuses on ensuring the safety and security of the individual. (Grachev, et al. 2006, 13) In the case of Russia, this type contributes insignificantly to effective leadership. The GLOBE study showed that such leadership style is not the most appropriate for Russian employees. Therefore, it is not advisable to try to implement the Hempel's traditional leadership style. Hempel's A/S senior managers should find a golden mean between value-added and self-protective leadership. The possible solution could become a transformational type of leadership.

The Global Leadership and Organizational Behavioral Effectiveness (GLOBE) study has also found both globally recognized transformational characteristics of ideal leadership and ones reflecting the cultural specificity within and between the proposed six clusters (Hall, et al. 2011) Transformational leadership is achieved through charisma, inspirational motivation, intellectual stimulation, and individualized consideration (Avolio 1999, 110). Transformational leaders motivate managers to go beyond their powers and do more than they planned to. Identification with leaders is an important characteristic that leads to respect and trust, and identification with both leaders, and with the statements of their company. 'Inspirational motivation refers to the leader's ability to articulate values and goals that cause followers

to transcend their own self-interests.’ (Hall, et al. 2011) Employees identify themselves with inspirational leaders and are ready do their best to achieve the mutual goals promoted by their leader, and to meet the leader’s high expectations. In addition, transformational leaders provide new challenges that evoke motivation; employees value their engagement in shared goals, their future work, career ladder and optimism. (ibid.)

## 7 CONCLUSION AND RECOMMENDATIONS

This chapter summarizes the key findings and presents brief answers to the research questions.

The deeper expansion and establishment of Hempel's plant in Russia was influenced by growing demand and low production costs. Thus, the decision of Hempel A/S to establish a factory in Ulyanovsk was rational due to region's medium income and skilled workforce, strategic and very convenient location – 'North-South' and 'West-East' transport corridors, availability of natural resources, governmental assistance and cooperation in establishing the facility and relatively cheap land spots in the industrial zone near to the city.

The research topic was connected with organizational structure and leadership. The study showed the inclination of Russian employees and companies to follow the linear-functional power structure and maintain charismatic or team-orientated leadership types. One of the research questions dealt with socio-labour relations management. Consequently, the respect for the state, deference to charismatically strong leader, sometimes unwillingness to take responsibility, disrespect for formal laws, and dislike of discipline in the operation of labor and business are considered to be the main issues.

The very last research questions were addressed to the matter of integration Hempel's A/S practices of organization and management style to the Russia-based facility. However, it is rather hard to identify the right way of establishing the Western leadership style and maintaining the original matrix organizational power structure of Hempel A/S in Russia. The main reason for that could be a relatively late transformation to market economy of Russia so the basic terms and understanding of it are still missing in the Russian minds. In addition, the mentality plays a bigger part as Russian employees are supposed to be governed differently due to their Western-Asian mindsets.

Regarding the organizational structure integration, in the first stage the pre-dominance to functional system and gradual integration should be applied; as a matrix structure combines both divisional and functional, it will be easier for Hempel's senior management. What concerns the integration of the leadership style, Hempel A/S authorities should wither balance between charismatic leadership and self-protective or to choose the most appropriate one for Russian staff, as leadership practices must be developed according to the country of operations.

Considering all the research, strict mechanism of communication and reporting, supervision of works and activities need to be introduced. With the gradual implementation of matrix structure's features, it will be possible to adapt employees to it. The capable of working generations are friendly users of IT innovations and, mostly likely, will be glad to adapt an interface needed for increasing effectiveness. The periodical goal-setting meetings are necessary as the employees will feel their part in a global goal and the effectiveness and enthusiasm will increase. The radical change of the traditional power structure will definitely lead to inefficiency, misunderstandings, interrupts in production and losses in turnover. Therefore, the gradual integration is the most appropriate.

As regards to leadership policies, the expatriates should be recruited for upper-level management, who preferably have already experienced Russian business life. Moreover, employees with international experience will benefit the company as they could show some other attitude in terms of leadership and behavior to traditional Russian workers. The leader should encourage workers; show them his respect and evaluation of their commitment. The leader should apply the practice 'carrot and stick' – the most effective way to manage Russian employees.

Further research considerations include a further study involving focus groups and in-depth interviews with employees and top managers on wherever they both feel comfortable and need any improvements. Ideally, foreign companies presented in Russia for a long time could take a part in the research study. It gives a bigger picture of foreign company's success in distinctive country of Russia. In addition, sharing experience benefits not only interviewees but also interviewers.

Considering everything, Hempel A/S is to become a successful employer in Russia and increase its company image and market share as soon as production starts. For the future success, the company should keep its operation on the same level and expand into other foreign markets.



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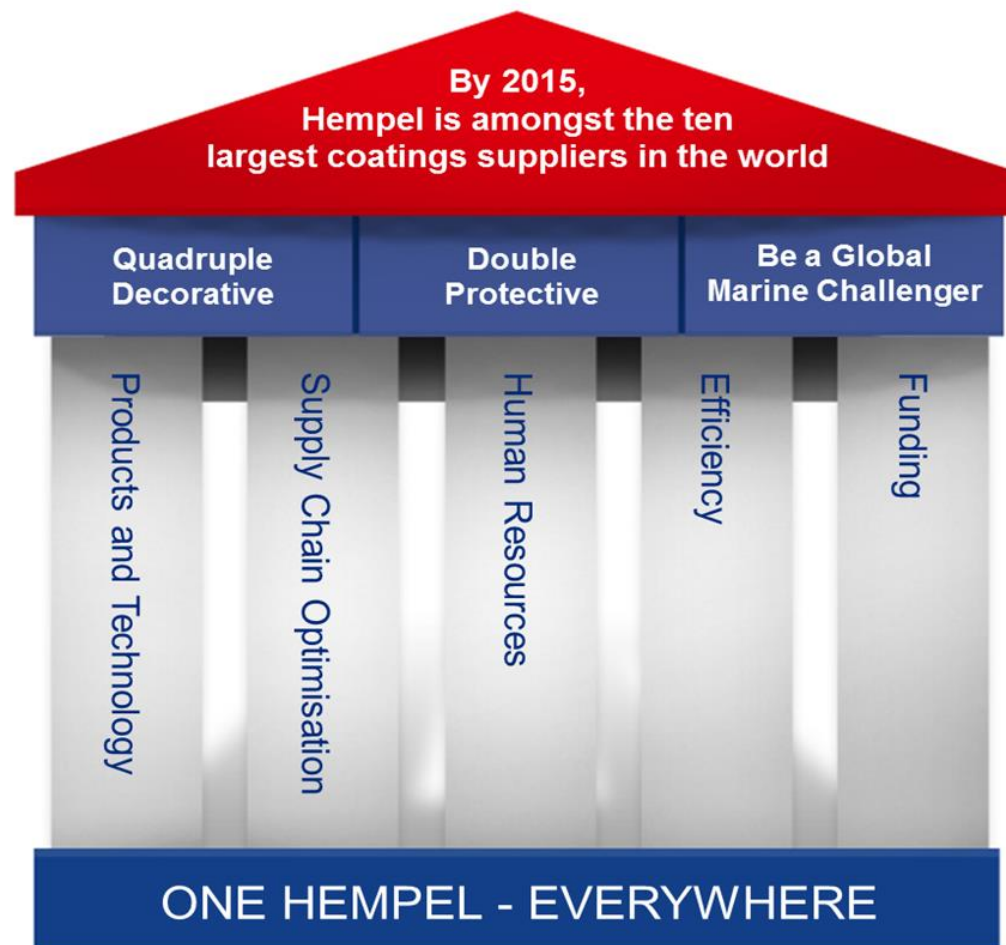
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## Hempel's Vision

- Our long term ambition

## Hempel's Must-Win Battles

- The battles that we **have to win** up to 2015 to achieve our vision

## Hempel's Strategy Pillars

- The development/improvement of these pillars are crucially needed to win our Must-Win Battles
- Though they may look like functional projects, they are truly cross-functional

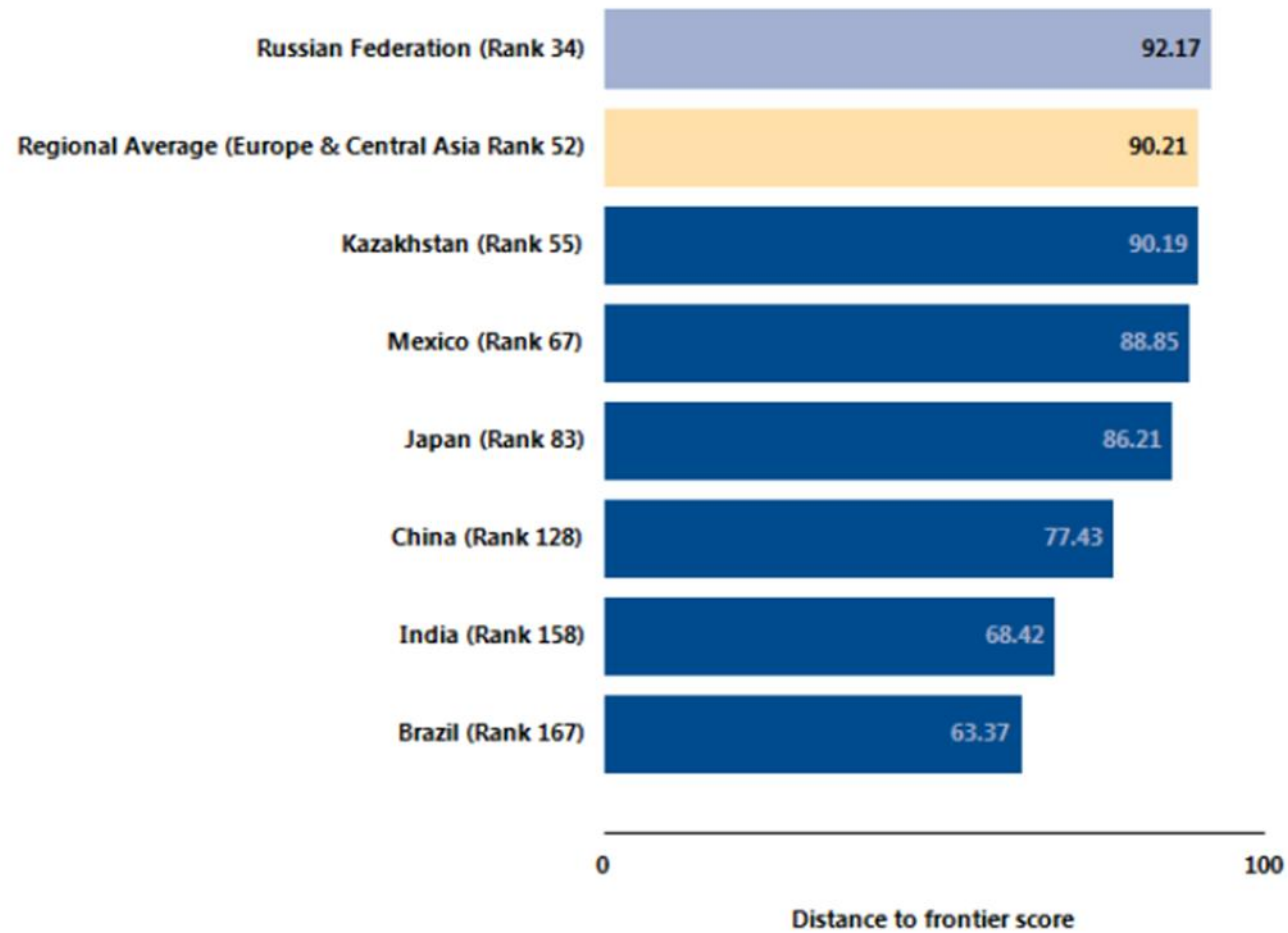
## Hempel's Strategic Foundation

- In short, our existing assets, systems, competencies and financial capability that was further improved during *One Hempel – Everywhere*.

(Hempel A/S non-public)

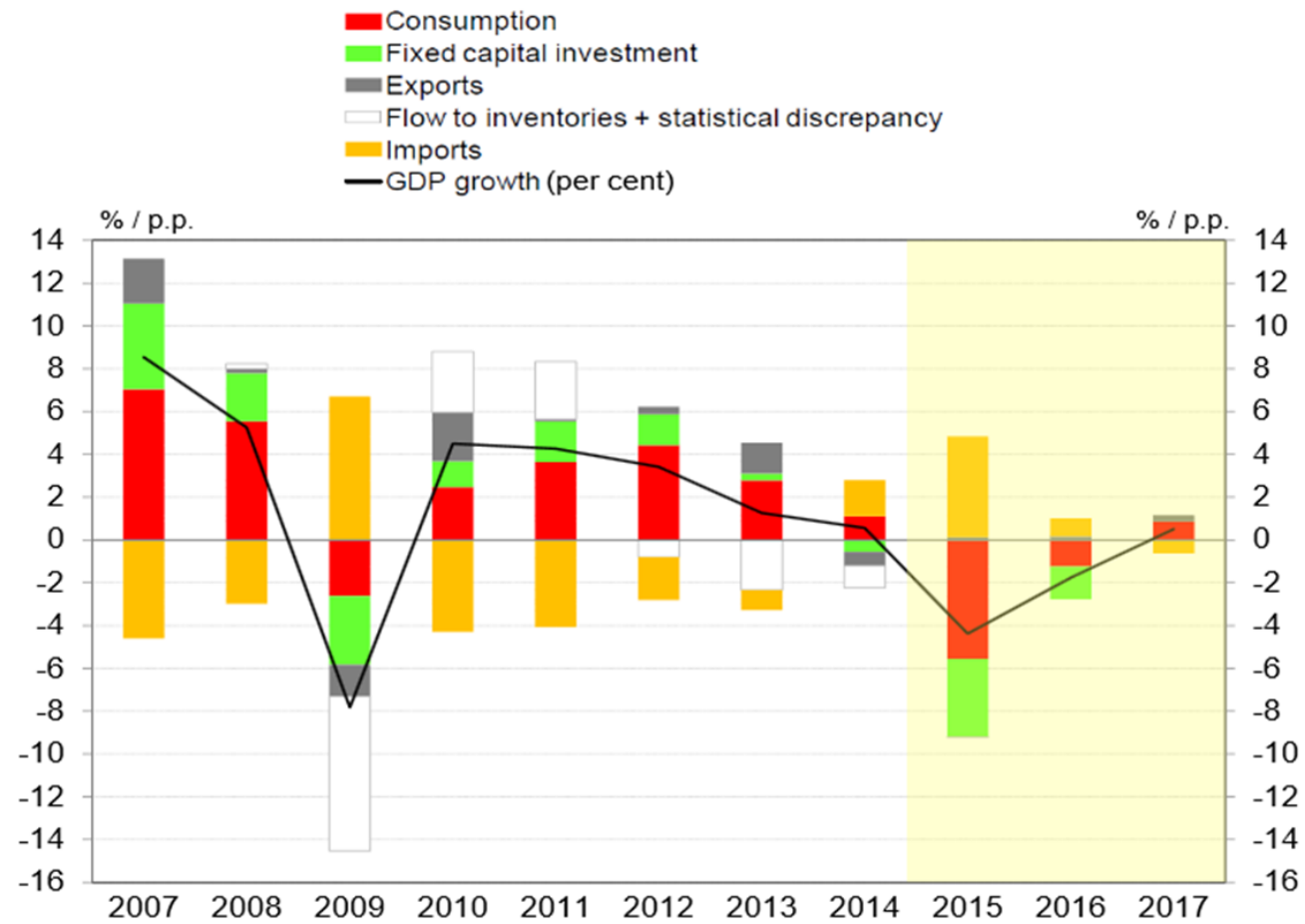


APPENDIX 2/1. RUSSIAN GDP GROWTH, REALIZED AND FORECAST (%), AND THE SHARES OF DEMAND COMPONENTS AND IMPORTS IN GDP GROWTH (%).



(Bank of Finland 2015, 5)

APPENDIX 3/1. HOW RUSSIA AND COMPARATOR ECONOMIES RANK ON THE EASE OF STARTING A BUSINESS



(World Bank Group 2015, 19)

## APPENDIX 4/1. AVERAGE EXCHANGE RATE RUB/EUR 2007-2015

Time period	Average Rate RUB/EUR	Time period	Average Rate RUB/EUR
12/2007	0.027939	09/2011	0.023711
01/2008	0.027785	10/2011	0.023312
02/2008	0.027683	11/2011	0.023896
03/2008	0.027191	12/2011	0.024100
04/2008	0.026973	01/2012	0.024699
05/2008	0.027104	02/2012	0.025349
06/2008	0.027198	03/2012	0.025799
07/2008	0.027170	04/2012	0.025764
08/2008	0.027584	05/2012	0.025351
09/2008	0.027508	06/2012	0.024278
10/2008	0.028341	07/2012	0.025029
11/2008	0.028784	08/2012	0.025272
12/2008	0.026486	09/2012	0.024756
01/2009	0.023859	10/2012	0.024768
02/2009	0.021852	11/2012	0.024824
03/2009	0.022112	12/2012	0.024834
04/2009	0.022580	01/2013	0.024895
05/2009	0.022924	02/2013	0.024777
06/2009	0.022956	03/2013	0.025035
07/2009	0.022520	04/2013	0.024510
08/2009	0.022148	05/2013	0.024599
09/2009	0.022324	06/2013	0.023499
10/2009	0.022901	07/2013	0.023343
11/2009	0.023164	08/2013	0.022752
12/2009	0.022871	09/2013	0.022987
01/2010	0.023412	10/2013	0.022865
02/2010	0.024269	11/2013	0.022672
03/2010	0.024913	12/2013	0.022213
04/2010	0.025500	01/2014	0.021807
05/2010	0.026075	02/2014	0.020799
06/2010	0.026184	03/2014	0.019987
07/2010	0.025555	04/2014	0.020321
08/2010	0.025518	05/2014	0.020863
09/2010	0.024894	06/2014	0.021382
10/2010	0.023745	07/2014	0.021284
11/2010	0.023613	08/2014	0.020756
12/2010	0.024547	09/2014	0.020441
01/2011	0.024818	10/2014	0.019447
02/2011	0.025032	11/2014	0.017390
03/2011	0.025139	12/2014	0.014528
04/2011	0.024660	01/2015	0.013444
05/2011	0.024991	02/2015	0.013653
06/2011	0.024834	03/2015	0.015329
07/2011	0.025054	04/2015	0.017454
<b>08/2011</b>	0.024287	05/2015	0.017369

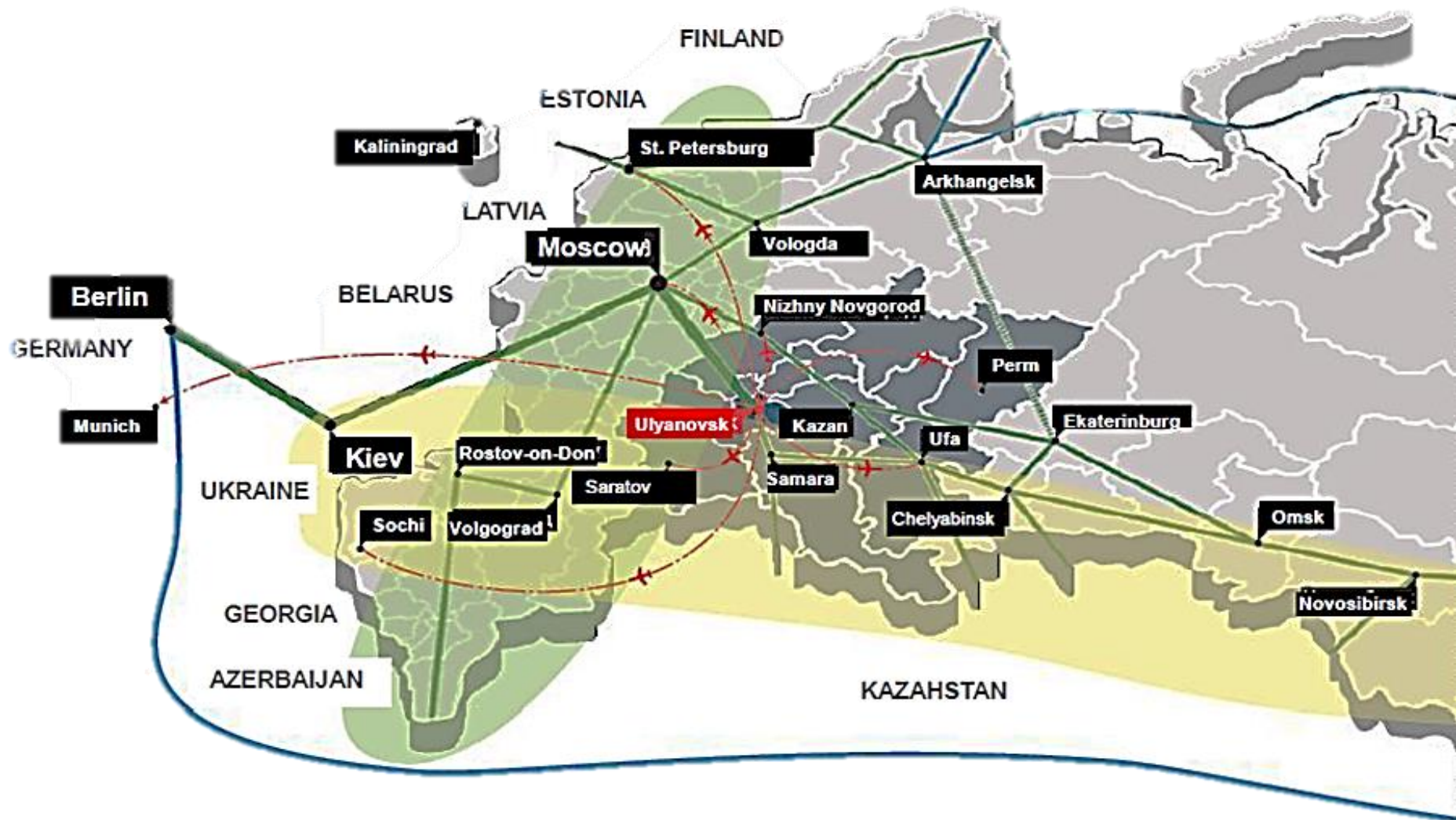
(Business Life, 2015)

## APPENDIX 5/1. AVERAGE MONTHLY SALARY ACROSS REGIONS IN RUSSIA IN 2015

<i>Russian Administrative Subjects</i>	<i>Aver. salary RUB mon</i>	<i>Russian Administrative Subjects</i>	<i>Aver. salary RUB mon.</i>
The Russian Federation	<b>32000</b>	Privolzhskiy Federal District	<b>22800</b>
Central Federal District	<b>39800</b>	Republic of Bashkortostan	25600
Belgorod Oblast	24800	Republic of Meri El	19300
Bryansk Oblast	18900	Republic of Mordovia	19000
Vladimir Oblast	20700	Republic of Tatarstan	24600
Voronezh Oblast	23700	Udmurt Republic	21300
Ivanovo Oblast	19200	Chuvash Republic	20900
Kaluga Oblast	24600	Perm Krai	24800
Kostroma Oblast	20500	Kurov Oblast	20800
Kursk Oblast	20700	Nizhniy Novgorod Oblast	24400
Lipets Oblast	22400	Orenburg Oblast	23700
Moscow Oblast	38600	Penza Oblast	20900
Orlov Oblast	15300	Samara Oblast	24600
Ryazan Oblast	19400	Saratov Oblast	21300
Smolensk Oblast	18200	Ulyanovsk Oblast	20800
Tambov Oblast	19500	Ural Federal Distict	<b>35600</b>
Tver Oblast	18300	Kurgan Oblast	20700
Tula Oblast	23200	Sverdlov Oblast	29800
Yaroslavl Oblast	24200	Tumen Oblast	45600
Moscow City	60800	Hanty-Mansiysk Autonomous Okrug	56300
North-Western Federal District	<b>35600</b>	Yamalo-Nenets Automonous Okrug	64200
Republic of Karelia	29500	Chelyabinsk Oblast	24200
Republic of Komi	35800	Siberia Federal District	<b>27300</b>
Archangelsk Oblast	33500	Republic of Altai	22600
Nenets Autonomous Okrug	54100	Republic of Buryatiya	25200
Vologda Oblast	26200	Tyva Republic	27800
Kaliningrad Oblast	26200	Republic of Khakassia	29100
Leningrad Oblast	25500	Altai Krai	19000
Murmansk Oblast	39700	Zabaykalsk Krai	23000
Novgorod Oblast	24900	Krasnoyarsk Krai	26600
Pskov Oblast	22100	Irkutsk Krai	29500
Saint-Petersburg City	41300	Kemerovo Oblast	15900
Southern Federal District	<b>22800</b>	Novosibirsk Oblast	16000
Republic of Adygeya	18800	Omsk Oblast	26200
Republic of Kalmykiya	18300	Tomsk Oblast	29300
Krasnodar Krai	23500	Far Eastern Federal Distict	<b>35600</b>
Astrahan Oblast	24900	Republic of Saha (Yakutia)	48600
Volgograd Oblast	21500	Kamchatka Krai	46000
Rostov Oblast	21200	Primorsk Krai	30900
North Caucasian Federal District	18600	Habarovsk Krai	32000
Republic of Dagestan	15700	Amur Oblast	31400
Republic of Ingushetiya	18900	Magadan Oblast	50800
Republic of Kabardino-Balkaria	17200	Sahalin Oblast	46600
Republic of Karachaevo-Cherkesskaya	16400	Jewish Autonomous Okrug	28400
Republic of North Ossetia and Alania	16900		
Republic of Chechen	19100		
Stavropol Krai	20000		

(Business Life 2015)

APPENDIX 6/1. LOGISTICS MAP OF THE ULYANOVSK REGION.



LUK FAG SCHAEFFLER GRUPPE  
 Jokey  
 GILDEMEISTER  
 TAKATA  
 HERMLE Machine Company  
 OUVREZ  
 BRIDGESTONE  
 nemak  
 ISUZU  
 MARS  
 legrand  
 BAW  
 Hilton  
 STIS  
 PILKINGTON  
 POCHANO  
 European Bank  
 HEMPEL  
 EFES  
 FM LOGISTIC  
 Henkel  
 sollers  
 EURO CEMENT  
 RITECHNICS  
 SKLOSTROJ  
 P.M. Packaging  
 AVIASTAR-SP  
 SUKHOI  
 OAK  
 TATNEFT  
 АэроКомпозит  
 GCR  
 VIKING  
 AirBridgeCargo  
 evektor  
 PУСЧ  
 ГРОСС  
 Чаша  
 Выходное  
 ВОСТОК  
 X5RETAILGROUP



APPENDIX 8/1. ROLES OF MANAGERS IN FUNCTIONAL AND MATRIX ORGANIZATIONAL STRUCTURES

<b><i>Old Role of Manager</i></b>	<b><i>New Role of Manager</i></b>
Owens a set of resources to be used to optimize his/her area	Is a trustee for a set of resources to be used for the organizational good
Uses authority to get things done	Uses organizational systems such as goal alignment, accountability, and performance management to get things done Uses influence and negotiation to get things done
Uses a directive approach to managing	Uses a collaborative approach to leading
Is the primary decision maker	Leads teams and provides tools for their decision making process Pushes decision making down to the lowest level possible
Is the expert in a technical area	Develops expertise at lower levels
Maintains power for self	Empowers others
Primary accountability is for a functional area	Primary accountability is for business processes and projects
Primary focus is internal	Primary focus is external

(Horney & O'Shea 2009)

Characteristics of Organizational Culture	USA	Japan	Russia
Image of organization	Sport team	Family	Family team
Aim of business	Profit	Long-term existence	Long-term profitable existence
Motivation for profit	All possible means	Means of organizational goals	Means of existence and development
Values	Material values	Orientation toward humans	Material values
Employees	Attitude as to labour force	Attitude to an employee as to a person	Attitude as to labour force
Personal relationships	Functional. Individualism	Emotional. Collectivism	Emotional. Collectivism
Competition	Strong competition, victory of the strongest	Collaboration, harmony, co-existence.	Competition and collaboration
Guarantees to employees	Low (short-term contacts, narrow specialists)	High (long-term contacts, employment for entire life, universal employees)	Very low (frequently no guarantees)
Decision-making	Individual decisions, downwards	Collective decisions, upwards	Individual decisions, downwards
Promotion	Skills and business qualities	Length of service	Depends on family and fellow connections for promotion